

FINANCIAL STATEMENT ANALYSIS

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Q1

The following financial statements of Mean PLC are given to you.

Profit or Loss F/T/Y/E 31 December

Rs.000	2019	2018
Revenue	386,175	304,754
Cost of Sales	(266,366)	(254,403)
Gross Profit	119,809	50,351
Other Income	445	11,590
Admin Expenses	(60,258)	(81,307)
Distribution Expenses	(34,605)	(38,256)
Finance Cost	(23,007)	(21,381)
Profit Before Tax	2,384	(79,003)
Tax	(3,286)	-
Profit After Tax	(902)	(79,003)
Other Comprehensive Income	287	639
Total Comprehensive Income	(615)	(78,364)

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SFP as at 31 December

Rs.000	2019/12/31	2018/12/31
Non-Current Assets		
Property, plant and equipment	38,429	46,803
Investments	755	584
Total Non-Current Assets	39,184	47,387
Current Assets		
Inventories	146,131	168,722
Trade and other receivables	58,554	63,834
Advances and prepayments	1,763	2,089
Cash and cash equivalents	495	559
Total Current Assets	206,943	235,204
Total Assets	246,127	282,591

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SFP as at 31 December

Rs.000	2019	2018
Equity		
Stated capital	109,187	109,187
Accumulated losses	(293,475)	(292,860)
Total equity	(184,288)	(183,673)
Non-Current Liabilities		
Interest bearing borrowings	132,340	127,160
Retirement benefit obligations	1,225	1,180
	133,565	128,340
Current Liabilities		
Trade and other payables	215,733	251,885
Interest bearing borrowings	81,117	86,039
	296,850	337,924
Total Liabilities	246,127	282,591

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Required:

Analyze the comparative financial performance and financial position of Mean PLC in terms of its capital employed, profit margins, assets utilization, interest cover and gearing for the year ended 31 December 2019. (10 Marks)

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Q2

Computer Tech PLC (CT) is in the business of selling computers and related accessories. The extracted income statements are provided below:

Profit or Loss F/T/Y/E 31 March

Rs.000	2019	2018
Revenue	645,311	576,171
Cost of Sales	(428,815)	(374,510)
Gross Profit	216,496	201,661
Admin Expenses	(64,531)	(60,497)
Distribution Expenses	(83,890)	(63,378)
Operating Profit	68,075	77,786
Finance Cost	(32,265)	(14,404)
Profit Before Tax	35,810	63,382
Tax	(16,114)	(18,379)
Profit After Tax	19,696	45,003

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Some other Information

	2019	2018
Return on capital employed (ROCE)	7%	13%
Debt ratio	32%	20%
Gearing ratio	54%	38%
Earnings per share (EPS) (Rs.)	0.26	0.60
Market price per share (Rs.)	28	35

Note:

The market interest rate during 2019 was 8% - 11% compared to 11% - 15% in the previous year.

Damith, an investor, expects to make a few equity investments and CT is one entity he has identified for his investment.

Required:

(a) Assess the profitability and solvency of CT, based on the given financial results. (06 marks)

(b) Advise Damith on the limitations of financial statements analysis of CT. (04 marks)

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Q3

Ashaa Medical PLC is one of the leading health care service providers in Sri Lanka. The table below presents some key ratios of the company with industry averages for the year ended 31 March 2019.

	Formula	Company	Industry	Var %
Liquidity ratios				
Current ratio	Current assets/Current liabilities	0.7	0.9	-22%
Quick ratio	Quick Assets/CL	0.6	0.8	-25%
Working Capital Turnover	Sales/Working Capital	(40.0)	(253.1)	-84%
Activity ratios				
Total Asset Turnover	Sales/Total assets	6.6	8.5	-22%
Fixed Asset Turnover	Sales /Fixed Assets	19.6	25.1	-22%

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	Formula	Company	Industry	Var %
Profitability ratios				
Rate of return on assets	Earnings before taxes / Total assets *100	3.7	11.1	-67%
Rate of return on equity	Earnings before taxes / Total equity *100	47.8	48.2	-1%
Coverage ratios				
Debt to equity	Total liabilities / Total equity	11.8	10.4	13%
Interest Cover	Earnings before interest and taxes /interest expense	1.6	4.6	-65%

Required:

- (a) Interpret the above ratios of Ashaa Medical PLC with industry averages for the year ended 31 March 2019. (6 marks)
- (b) Recommend two (02) measures that Ashaa Medical PLC can use to improve each ratio category. (04 Marks)

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Q4

It has been suggested that ratio analysis is not necessarily the best way of assessing the performance of a company.

Required

- List two limitations of using accounting ratios in the appraisal of financial performance (02 Marks)
- (b) Below are the financial ratios for the year ended 31 March 2019 for Decimal (Pvt) Ltd, a company engaged in the buying and shipment of agricultural products. The ratios for the industry are also provided.

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	Decimal	Industry Average
Quick ratio	0.52 : 1	0.84 : 1
Current ratio	1.20 : 1	1.80 : 1
Debtor Collection Period	46 Days	41 Days
Inventory Holding Period	58 Days	48 Days
Price-Earnings Ratio	1.4 times	3.4 times
Gross Profit Margin	18%	28%
Net Profit Margin	8%	12.8%
Return on Capital Employed	28%	14%

Required

Prepare a memo to the shareholders of Decimal (Pvt) Ltd assessing its performance in comparison with the industry average under profitability, liquidity and shareholder's investment (08 Marks)

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Q5

PMP Supermarket (Pvt) Ltd (PMP) is an island-wide supermarket chain. The following information is available for the company and the industry.

Ratio	Company FY 2023	Company FY 2022	Industry FY 2023
Debt-to-Equity (times)	0.5	0.84	0.95
Total Assets to Equity (times)	1.5	1.84	1.95
Interest Cover (Times)	2.27	1.8	1.5
Return on Capital Employed (ROCE)	22.5%	26%	18%
Asset Turnover (Times)	1.5	1.3	2
Revenue Rs. Mn	600	500	N/A
Cost of Sales	500	400	N/A
Average Inventory	200	175	N/A
Average Receivables	60	55	N/A

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Required:

(a) Calculate the following ratios for FY 2023 and FY 2022 based on the available information.

- (i) Gross profit margin
- (ii) Inventory holding period
- (iii) Debtors' collection period (6 marks)

(b) Analyse PMP's performance in FY 2023, against the industry and the prior period, in relation to the following.

- (i) Gearing
- (ii) Return on capital employed (4 marks)

(Total: 10 marks)

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Q6

Star (Pvt) Ltd (Star) is a retail company with an island-wide distribution network. The following amounts are provided for Star and its main competitor, Sun (Pvt) Ltd (Sun), for the financial year ended 31 March 2022.

	Star Rs. Mn	Sun Rs. Mn
Revenue	200	300
Operating Profit	15	20
Total Equity	180	200
Non-Current Liabilities	70	75
Current Liabilities	120	150

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Required:

(a) Calculate the following ratios for Star and Sun

- (i) Operating profit margin
- (ii) Asset Turnover
- (iii) Return on Capital Employed (6 marks)

(b) Analyse Star's performance against Sun's by using any two ratios out of the ratios calculated above in part (a). (4 marks)

(Total: 10 marks)

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Q7

Rovex PLC (Rovex) is involved in the business of construction and supply of construction-related services and materials. The following financial and other information extracted from Rovex's financial statements for the year ended 31 March 2022 is provided for your analysis.

	2021/22 Rs. Mn	2020/21 Rs. Mn
Revenue	21,800	17,900
Cost of Sales	(18,900)	(15,600)
Gross Profit	2,900	2,300
Operating Profit	2,100	1,800
Finance Cost	1,580	890
Shareholders Equity	22,400	20,500
Interest Bearing Borrowings	6,000	1,600

Additional information

- During the year, Rovex was able to complete its major construction projects.
- The company invested in increasing its production capacity by establishing two new plants to support construction material production and expanded the distribution network covering the entire island.

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- There was a considerable shortage of raw materials during 2021/22 due to import restrictions imposed by the government. Further, towards the latter part of the year, there was a severe power crisis in the country

Required:

(a) Calculate the following ratios for Rovex for given years.

- Gross profit margin
- Operating profit margin
- Gearing
- Interest cover

(b) Analyse the profitability and long-term solvency of Rovex based on the ratios computed above and the information given. (Total: 10 marks)

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Q8

You have been given the following information extracted from the financial statements of a hotel. The hotel's financial year ends on 31 March.

Rs. Mn	2018	2019	2020	2021
Revenue	836	850	510	184
Earnings before Interest, Tax, Depreciation and Amortization	260	250	50	(60)
Profit for the Year	133	103	(96)	(197)
Shareholders Funds	2,865	2,964	3,192	2,995
Current Liabilities	146	135	95	81
Current Assets	181	205	135	95
Earnings Per Share (EPS)	2.89	2.23	(2.09)	(4.27)
Price to Earnings Ratio (Times)	13.77	11.48		
Room Nights Occupied	25,114	25,636	15,884	7,301

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Additional information

- Global tourism suffered its worst year on record in 2020, with international arrivals dropping by 74% according to the latest data from the World Tourism Organisation (UNWTO).
- The number of shares has remained unchanged since 2018.

Required:

Analyse the profitability, liquidity and investor ratios of the hotel over the period using the information given. (Total: 10 marks)

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Q9

Winwin (Pvt) Ltd (Winwin) imports tile grout and mortars. Then sells them through its island wide distribution channel which contains own showrooms, distributors, dealers and commission agents. The company has prepared its financial statements for the year ended 31 March 2021 and the following amounts have been extracted from the financial statements.

Rs. Mn	Winwin 2020/21	Winwin 2019/20	Industry Average 2020/21
Average trade receivables	82	76	235
Average trade payables	95	63	345
Average inventory	125	148	450
Revenue	1,410	1,260	2,530
Cost of Sales	630	580	1,390

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Required:

- (a) Calculate four (04) key ratios from the information provided for Winwin (Pvt) Ltd for both years and the industry average. (6 marks)
- (a) Discuss two (02) possible explanations for the movements in each ratio calculated in part (a) above. (4 marks) (Total: 10 marks)

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Q10

Best Food (Pvt) Ltd (BFL) is engaged in the business of buying and selling dairy products. The following ratios are available for the company and its industry.

Ratio	Company FY2019	Company FY2018	Industry FY2019
Inventory Turnover	80	55	65
Total Asset Turnover	0.7	0.8	0.6
Accounts Receivable Collection Period	125	110	130
Debt-to-equity	0.9	0.85	0.95
Total Assets to Equity	1.9	1.85	1.95
Interest Cover	1.35	1.85	0.85
Profit Margin	12%	11.5%	12.5%

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Required:

- (a) Calculate the following based on the available ratios and comment on it.
- Return on Capital Employed (ROCE) for BFL for the financial year 2018 and 2019
 - ROCE for the industry for the financial year 2019 (5 marks)
- (b) Discuss the following areas of BFL based on the available information.
- Asset management efficiency
 - Solvency (5 marks) (Total: 10 marks)

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Q11 – 2024 June

Given below is financial information of Intico (Pvt) Ltd (IPL), a company exporting textile-related material. The board of IPL is very happy with the performance of the company during 2024 and is ready to approve a bonus for its employees and pay dividends to its shareholders. In the last 2 years the company has adopted strategies to convert its manufacturing process to more sustainable methods such as the use of solar power, thereby reducing fuel costs and electricity costs.

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	2024	2023
	Rs. Mn	Rs. Mn
Revenue	153.0	156.2
Cost of Sales	(120.0)	(136.0)
Other Operating Income	2.4	5.2
Expenses	(6.1)	(5.1)
Finance Cost	(4.2)	(3.0)
Income Tax	(2.5)	(5.7)
Non-Current Assets	143.8	145.3
Current Assets	135.4	135.9
Stated Capital	31.9	31.9
Retained Earnings	37.6	15.0
Non-Current Liabilities	102.3	100.0
Current Liabilities	107.4	134.3

You are the finance manager of IPL

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Required:

(a) Compute the following ratios to assess the performance/position of IPL during 2024 compared to 2023.

1. Gross Profit Margin
2. Net Profit Margin
3. Current Ratio
4. Return on Equity
5. Interest Cover (5 marks)

(b) Assess the performance/position of IPL based on the ratios computed in (a) above. (5 marks)

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Q12 – 2023 December

You are the accountant of Bisman (Pvt) Ltd (Bisman), and you have been asked to do a presentation to the board on the company's performance in 2023 (post-COVID) against 2020 (pre-COVID).

Data extracted from the respective years' financial statements are given below.

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	2020 Rs.	2023 Rs.
Credit Sales	10,000,000	9,000,000
Credit Purchases	9,000,000	8,500,000
Cost of Sales	8,500,000	7,500,000
Net Profit	500,000	750,000
Total Assets	4,000,000	4,500,000
Inventory	2,500,000	2,000,000
Trade Receivables	1,000,000	2,000,000
Trade Payables	2,000,000	1,500,000

Required:

- (a) Calculate the following ratios of Bisman for both years.
- (i) Inventory turnover period (ii) Accounts receivable collection period
(iii) Accounts payable payment period (6 marks)
- (b) Using the calculations of part (a) above, comment on three (03) factors that have contributed to the movement of the operating cycle of Bisman. (4 marks)

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