CHAPTER 12.01

ANALYSIS OF ACCOUNTING RATIOS

1. Liquidity Ratios/ Short term financial stability Ratios

Liquidity, in accounting, refers to the **financial ability of the business to meet its short-term liabilities.** If the objective of the business is earning profit, it should act to increase profitability and should maintain the ability of facing to short term liabilities as well. There should be strong financial stability.

I. **Current Ratio/ working capital Ratio=** $\frac{\textbf{Current assets (CA)}}{\textbf{Current liablities (CL)}}$

Objective: It shows to relationship in between C.L. & C.A. in other words to calculate the ability of C.A. to settle C.L. **(2:1 is generally accepted)**

II. **Quick Asset Ratio / Acid test Ratio =** $\frac{\textbf{Quick assets (QA)}}{\textbf{Current liabilities (CL)}}$

Quick assets = [Current Assets – Closing Inventory – Prepaid expenses]

2. Leverage / Gearing / Long Term financial stability Ratios

This ratio represents the **relationship between equity capital and loan capital.** The extent of owner's contribution and the extent of money lenders contribution to the business.

1. Owner's contribution is tallied with money lender's contribution. This is called as **Neutral gearing.**
2. Lender's contribution is higher than owner's contribution. This situation is known as **High gearing.**
3. Owner's contribution is higher than the money lender's contribution. This situation is identified as **Low gearing.**

I. **Debt Ratio** $= \frac{\text{Debt capital}}{\text{Total capital}}$ **X 100**

Debt capital = Interest-bearing long-term loans
Total Capital = Ordinary share capital + Reserves + Long term Loans

Objective: Debt ratio is used to measure the percentage of debt capital from total capital. Long term loans with fixed interest rate are considered under debt capital.

Special notes

- High leverage will decrease the safety of creditors.
- If the **ratio exceeds 50%** = **High leverage** position.
- If it is **lower than 50%** = **Low leverage** position.
- If **it is 50%** = **Neutral** leverage.

II. **Equity Ratio** $= \frac{\text{Equity capital}}{\text{Total capital}}$ **x 100**

Equity capital = (Ordinary share Stated capital (O/S/S/C) + Reserves)
Total capital = Debt capital + Equity capital

Objective: Determine the percentage of total equity from total capital. **Equity includes ordinary share stated capital + reserves.**

Special notes

- If equity ratio is higher than 50% it reveals that the firm uses more of equity capital than debt capital.
- If the ratio **exceeds 50%** = **Low leverage** position
- If it is **lower than 50%** = **High leverage** position
- If **it is 50%** = **Neutral gearing** position

III. **Debt Equity Ratio=** $\frac{\textbf{Debt capital}}{\textbf{Equity capital}}$ **X 100**

Debt capital = Interest-bearing long-term loans
Equity capital = (Ordinary share Stated capital (O/S/S/C) + Reserves)

Objective: Reveal relationship between debt capital and owner's equity when comparing debt capital and equity capital. If debt capital is higher than owner's equity it is called high leverage.

Special notes

- If the ratio **exceeds 100%** = **High leverage** position
- If it is **lower than 100%** = **Low leverage** position
- If **it is 50%** = **Neutral** gearing position

IV. **Interest coverage Ratio=** $\frac{\textbf{Profit before Interest \& Tax [PBIT]}}{\textbf{Interest expense on loan}}$

PBT = Profit before Tax
PBIT= Profit before Tax (PBT) + Interest expense

Objective: This ratio is **considered whether business earned enough profit to cover the interest for long term loans.** High value for interest coverage ratio is exhibited the softy of loan provided.

3. Profitability ratio/ Performance ratio

This ratio that are measured the ability of gain profits in an organization are considered to be profitability ratios.

I. Gross profit Ratio= $\frac{\textbf{Gross profit}}{\textbf{Sales}}$ **X 100**

Objective: It shows the **relationship in between sales revenue & gross profit.** It means to calculate **gross profit as a percentage of sales.**

II. Net profit Ratio= $\frac{\text{Profit after tax (PAT),[Net profit]}}{\text{Sales}}$ **X 100**

Objective: It shows the **relationship in between sales revenue & Net profit**; it means to calculate **net profit as a percentage of sales**.

III. Return on assets/Return on investment (ROI)= $\frac{\text{PBIT}}{\text{Total assets}}$ **X 100**

PBIT= Profit before Tax (PBT) + Interest expense
Total assets = non-current assets + current assets

Objective: It shows the relationship in **between PBIT & Total assets**, it means to calculate the **profit before interest and tax (PBIT) as a percentage of total assets**.

IV. Return on Equity/Return on Capital= $\frac{\text{PAT (Profit atfer Tax)}}{\text{Equity capital}}$ **X 100**

Equity capital = (Ordinary share Stated capital (O/S/S/C) + Reserves)

Objective: It shows the **relationship in between owner's capital and the profit attributable to ordinary shareholders**. It means to calculate the **percentage of profit that owners gain from their equity**. Owners' capital includes ordinary share stated capital and reserves.

4. Efficiency ratio/ Turnover ratio

I. Debtor's turnover Ratio= $\frac{\textbf{Credit sales}}{\textbf{Average Debtors}}$

Average Debtors = $\frac{\textbf{Opening Debtor Balance + Closing Debtor Balance}}{\textbf{2}}$

Objective: It shows the **number of times that the debtors of the business are converted in to cash.**

II. Debtor's collection period / Debtor's period= $\frac{\textbf{Average Debtors}}{\textbf{Credit sales}}$ **X 365 DAYS**

OR

$$\frac{\textbf{365 Days}}{\textbf{Debtors turnover ratio}}$$

Average Debtors = $\frac{\textbf{Opening Debtor Balance + Closing Debtor Balance}}{\textbf{2}}$

Objective: It shows the **number of days that debtors take to settle their out standings**.

III. Stock turnover Ratio= $\frac{\textbf{Cost of sales}}{\textbf{Average Stocks}}$

Average Stocks = $\frac{\textbf{Opening Stock Balance + Closing Stock Balance}}{\textbf{2}}$

Objective: It shows the **number of times the stock of the enterprise is converted in to sales.**

IV. Inventory Holding/Resident/Maintaining period= $\frac{\text{Average Stock}}{\text{Cost of sales}}$ X 365 DAYS

OR

$$\frac{\text{365 Days}}{\text{Inventory turnover ratio}}$$

Average Stocks = $\frac{\text{Opening Stock Balance} + \text{Closing Stock Balance}}{2}$

Objective: It shows the **average number of days that stock is held in the business.**

v. **Creditors turnover Ratio=** $\frac{\text{Credit purchases}}{\text{Average Creditors}}$

Average Creditors = $\frac{\text{Opening Creditor Balance} + \text{Closing Creditor Balance}}{2}$

Objective: It shows the **times of payments to creditors within a specific period of time.**

I. Creditors Cash payment Period = $\frac{\text{Average Creditors}}{\text{Credit Purchases}}$ X 365 DAYS

OR

$$\frac{\text{365 Days}}{\text{Creditors turnover ratio}}$$

Average Creditors = $\frac{\text{Opening Creditor Balance} + \text{Closing Creditor Balance}}{2}$

Objective: It shows the **number of days taken for payment for creditors**

v. **Assets turnover Ratio=** $\frac{\textbf{Turn over (Sales)}}{\textbf{Total Assets}}$

Total assets = non-current assets + current assets

Objective: Demonstrate how **to maximize sales by using the contribution of total assets of the company**. If ratio is **high, assets are utilized efficiently**.

5. Investment Ratios / Earning ratios

I. **Earnings per share (EPS)=** $\frac{\textbf{Profit for the year (PAT)}}{\textbf{No.of ordinary shares}}$

Objective: This ratio is the **earning of the business that is attribute to each and every ordinary share in a given accounting period.**

If the EPS is higher, it decides that the operations and expectation of the business is better. However, it should be careful in comparing EPS between business because the policies relating to stock valuation and depreciation may be different from one to other. Because of this reason EPS may represent different values.

II. **Dividend per share (DPS)=** $\frac{\textbf{Dividends for ordinary shares}}{\textbf{No.of ordinary shares}}$

Assignment 01

Following details are relating to Hansi's business and a competitive business of it, Ahinsa's Business as at 31.03.2018

	Hansi (Rs.000)	Ahinsa (Rs.000)
Inventories	6000	7000
Trade receivables	4000	6000
Prepaid expenses	2000	3000
Trade payables	8000	9600
Accrued expenses	4000	2400
Cash & cash equivalents	6000	8000

Required:

01. Calculating following ratios from each business
    - Current ratio
    - Quick ratio

02. Which business in more efficient considering liquidity. Explain with reasons.

Assignment 02

	03.31.2016 (Rs.000)	03.31.2017 (Rs.000)
Stated capital ordinary shares at Rs.25/-	20000	24000
General reserves	4000	6000
Revaluation reserves for PPE	5000	9000
Retained Earnings	11000	6000
12% Bank loan	20000	20000
10% Mortgage loan (4 years)	5000	2000
Current liabilities	12000	15000

- Profit before tax is 10% from equity

Required:

01. Equity capital
02. Debt capital
03. Total capital
04. Profit before Tax (PBT)
05. Profit before interest and Tax (PBIT)
06. Equity ratio
07. Debt ratio
08. Debt equity ratio
09. Interest coverage ratio
10. Present your opinion on long term financial stability of this business.

Assignment 03

Randika PLC

Statement of profit or loss

2017.03.31 (Rs.000)		2016.03.31 (Rs.000)
10 000	Sales	8 000
(6 000)	Cost of sales	(5 600)
4 000	Gross profit	2 400

(1 500)	Expenses	(1 000)
2 500	profit before tax	1 400
(750)	Income tax	(420)
1 750	profit for the period	980

Randika PLC

Statement of financial positions

2017.03.31 (Rs.000)		2016.03.31 (Rs.000)
15 000	Non-current Assets	12 000
10 000	current Assets	8 000
12 000	Ordinary share capital	10 000
3 000	Reserves	4 000
2 000	10% long term loans	2 000

Get the answers for the following questions for year 2016

1. Gross profit ratio
2. Net profit ratio
3. Return on asset ratio
4. Return on equity ratio
5. Calculate ration for the year 2017 as they calculated for the year 2016.
6. Better year can be selected by comparing ratios of two years.

Assignment 04

Following information were obtained from financial statements of Kalpani PLC. In which financial year was ended at 31.03.2018

	Rs.000
• Credit sales	90 000
• Credit purchases	60 000
• Inventory as at 01.04.2017	8 000
• Trade debtors as at 01.04.2017	16 000
• Inventory as at 31.03.2018	12 000
• Trade debtors as at 31.03.2018	14 000
• Operating expenses	9 000

Obtain the answer for the following questions below referring above details.

1) Calculate cost of sales
2) Calculates average inventories
3) Calculates inventory turnover ratio
4) Calculates inventory residence period
5) Calculate average trade debtors
6) Calculates debtor's turnover ratio
7) Calculates debtor's collection ratio

Assignment 05

Extracts of statement of changes in equity for the year ended 31.03.2018 at Dewmini PLC.

Description	Ordinary share stated capital	General reserve	Retained Earnings
Balance at 01.04.2017 Profit for the year Dividend paid Transfer to general reserves	10 000	2 000 500	1 000 4 000 (1 000) (500)
Balance at 31.03.2017	10 000	2 500	3 500

Consideration of an ordinary share as ta 31.03.2018 was Rs.20/-

Required:

1. Number of shares issued by the company
2. EPS
3. DPS

Assignment 06

1. Way of calculating earnings for share.
2. Way of calculating dividend per share.
3. Following details were obtained from similar types of companies.

	A PLC	B PLC
EPS Rs.	24.75	18.25
DPS Rs.	10.50	10.50

States the most suitable company for invest.

CHAPTER 12.02

STATEMENT OF CASH FLOW(LKAS 07)

Assignment 01

Categorize Following items as operating Activities, Investment Activities, Financial Activities and cash & cash equivalents.

1.	Cash and cheque payments to suppliers	420,000
2.	Obtained a bank loan	200,000
3.	Paid interim dividends	18,000
4.	Cash and Cheque received from debtors	10,000
5.	Cash received from selling of motor vehicle	70,000
6.	Repayment of bank loan	40,000
7.	Cash receipt from issuing debentures	250,000
8.	Lent loan to employees	100,000
9.	Cash received from issue of shares	150,000
10.	Cash sales	180,000
11.	Furniture and fixtures purchase	50,000
12.	Paid interest	10,000
13.	Received investment income	12,000
14.	Paid income tax	60,000
15.	Paid for operating expenses	40,000
16.	Purchase other companies shares	80,000
17.	Paid allowances and salaries and wages for employees	20,000
18.	Received loan installment from employees	30,000
19.	Received interest income	10,000
20.	Credit purchase	110,000
21.	Purchase short term treasury bills(matured within 3 months)	200,000
22.	Cash balance (favorable)	10,000
23.	Cash at bank	20,000
24.	Purchase long term treasury bills	100,000
25.	Short term fixed deposits(matured within 3 months)	30,000
26.	Fixed deposits (01 year)	500,000
27.	Balance of savings accounts	200,000
28.	Cash receipts from discounting long term treasury bonds	500,000
29.	Cash receipts from selling other companies shares	60,000
30.	Lease installment payment.(Except interest)	50,000
31.	Petty cash balance	5,000
32.	Investment (02 years)	200,000
33.	Rent received for business place	10,000
34.	Capitalization of reserves	30,000
35.	Cash collection from right issue	100,000
36.	Payment of audit fee	10,000

37. Purchase of property plant and equipment 200,000
38. Electricity and insurance payments 20,000
39. Cash purchase 50,000

Assignment 02

Following cash control account was prepared by Newway PLC for the year ended 31/03/2017

Newway PLC

Cash control for the year ended 31/03/2017

Balance B/F at 01.04.2016	1500	Cash purchases	2000
Cash sales	4000	Creditors payments	3500
Debtor receipt	7500	<u>Expenses</u>	
		Administration expenses paid	2000
		Distribution expenses paid	1200
<u>Income</u>		Loan interest paid	1000
Dividend for investment	400	<u>Other payments</u>	
Rent income	200	Income tax paid	2000
<u>Other receipts</u>		Purchase of motor vehicle	4500
Disposing land	5500	Purchase of furniture & office equipment	1500
Ordinary share issue	3000	Lease instalment	1000
Bank loan obtained	2000	Loan instalment payment	2800
Collection from right issue	1000	Dividend paid	2400
		Balance C/D 31.03.2017	1200
	<u>25100</u>		**<u>25100</u>**
01.04.2017 Balance B/F	1200		

Note : Lease interest of Rs.500 was included in paid lease instalment

Required:

Prepare statement of cash flow for the year ended 31.03.2017 of Newway PLC by applying direct approach according to LKAS-07

Assignment 03

Leo PLC following are the Cash flows for year ending 31.12.2018

Rs.000

Cash & bank balance as per 01.01.2018	900
Paid cash to purchase machine	4200

Cash taken from short term loan	200
Loan given to workers	200
Received Loan installment from employees (except interest)	100
Interest & dividends received	340
Cash received from customers	15900
Cash received by selling machine	1800
Paid dividends	1300
Cash paid to suppliers and workers	12700
Paid interest	380
Paid income tax	1420
Cash sales	25000

Required

Prepare the cash flow statement for the year ending 31/12/2018 (direct method)

Assignment 04

Following details are related to ABC Company

Sales (35% cash sales)	97000
Receipts from sales of long term investments	25000
Cash receipts from right share issue	80000
Purchased of land	80000
Income tax payment	4000
Paid lease installment (Except interest expense)	10000
Dividends received	3000
Obtained long term borrowings	20000
Purchases of furniture	15000
Interest received	8000
Purchases (65% cash purchase)	62000
Expenses paid including salaries	25000
Dividends paid	5000

Balance on 1/4/2017		Balance on 31/03/2018
Cash	1,000	5,000
Debtor	16,500	13,400
Creditors	18,500	19,200
Bank	250	37,050

Required

Prepare the cash flow statement for the year ending 31/03/2018 (direct method)

Assignment 05

The following information relates to sumeda PLC for the year ended 31/03/2018

Rs.000

Profit for the year	850
Depreciation	100
Net decrease in current assets at the year – end excluding cash	120
Net decrease in current liabilities at the year- end excluding income tax payable	15
Income tax expense	400
Income tax paid	350
Cash collected by selling a machine which had a carrying amount of Rs. 700 000 at the time of disposal	1000
Cash collected by issuing ordinary shares	3000
Loan installment paid including an interest of Rs.8000 (No accrued interest paid at the beginning or at end of th year)	98
Cash paid for buying shares of other companies	1000
Dividends paid	600
Dividends received	80
Purchased of land	2000
Cash balance as at 01/04/2017	6000

Required:

Cash flow statement for the year ending 31.03.2018, according to the relevant Srilanka Accounting standards (LKAS 07)

Assignment 06

Following information has been extracted from the financial statements of Queen PLC

	31.03.2017	31.03.2018
	(Rs.000)	(Rs.000)
Ordinary shares of Rs.10 each	700	950
SOCI (retained earnings)	300	600
debentures	300	200
Trade creditors	200	300
Accrued debenture interest	-	20
Income tax payable	50	40
Bank balance	-	40
	1550	2150
Motor vehicles at net value	600	400
Furniture at net value	300	470

Trading stock	150	450
Trade debtors	200	300
Pre-paid operational expenditure	-	20
Bank balance	200	-
Cash in hand	100	510
	1550	2150

(ii) items extracted from the income statement for the year ended 31.03.2018

• Sales	2000
• Gross profit	800
• Other income	50
• Total operating expenses (including depreciation)	410
• Interest expenses	40
• Income tax for the year	100

(iii) Other information

- All the non-current assets are depreciated at 20% per annum on the opening net book value.
- Other income represents profit on disposal of motor vehicles.
- There were no disposal of furniture and no additions to motor vehicles during the year.
- All sales & Purchases are done on credit basis

Required:

Cash flow statement for the year ending 31.03.2018, according to the relevant Sri Lanka Accounting Standard.

Assignment 07 (2012 A/l Similar)

The summarized SOFP of Ganga PLC as at 31.03.2018 and 31.03.2017 are as follows (Rs.000)

	31.03.2018	31.03.2017
Land	1250	1600
Buildings	250	150
Accumulated depreciation-buildings	(115)	(90)
Plant and machinery	400	400
Accumulated depreciation-plant and machinery	(120)	(80)
Inventory	125	150
Debtors	750	600

Cash at bank	100	70
Total	2640	2800
Stated ordinary share capital	800	800
Retained earnings	480	300
Long term loan (obtained on 31.03.2017)	800	1000
Creditors	450	620
Interest payable	60	-
Income tax payable	50	80
Total	2640	2800

Additional information

(i) Profit before income tax for the year ending 31.03.2018 was Rs.200 000.
(ii) Of the interest payable on the loan for the year ending 31.03.2018 only half was been paid.
(iii) During the year ending 31.03.2018 an extension has been made to building belonging incurring a cost of Rs.100 000. Further, during the year, a block of land belonging to the company has been sold for Rs.600 000 on cash.
(iv) No plant and machinery have been acquired or sold during the year ending 31.03.2018.
(v) There have not been share issues or dividend payments during the year ending 31.03.2018.

Required:

Cash flow statement for the year ending 31.03.2018, according to the relevant Sri Lanka Accounting Standard.

Assignment 08 (2014 A/l Similar)

ODEL PLC started its operations on 01.04.2016. Financial statements of first year given below.

ODEL PLC
Statement of Profit or Loss
For the year ended 31.03.2017

(Rs.000)

Sales		9 500
Cost of sales		(4 500)
Gross profit		5000
Other income		500
		5 500
Distribution expenses	1 400	
Administration expenses	1 600	
Finance expenses	400	(3 400)
Profit before tax		2 100

Income tax		(600)
Profit for the period		1 500

ODEL PLC
Statement of financial position
For the year ended 31.03.2017

Property plant and equipment	7 000
Investments (Shanthi PLC)	2 000
Inventories	1 500
Trade and other receivables	4 000
Bank balance	1 000
Total assets	15 500
Equity and liabilities	
Stated capital-ordinary shares (Rs.90-100)	9 000
Retained earnings	1 000
10% bank loan (2016.04.01)	3 000
Trade and other payables	2 250
Accrued interest	150
Tax payables	100
Total equity and liabilities	15 500

Other information:

(i) ODEL PLC engages purchase and sales on credit terms. Trade & other receivables balance represent trade and & other payable balance represent trade creditors.

(ii) Rs.100 000 out of finance expenses in statement of profit or loss was bank charges, remaining were interest for bank loan.

(iii) Composition of property plant and equipment given below.

Asset	**Cost**	**Accumulated depreciation**	**Carrying amount**
Machines	2 400	400	2 000
Motor vehicles	3 000	600	2 400
land	2 600	-	2 600
	8 000	1 000	7 000

All property plant and equipment items were purchased on cash.

(iv) Other income consists of dividend collected for investments.

(v) Dividends were not paid by the company with in the year.

Required:

1. Statement of cash flows (as per LKAS 7)
    - Prepare statement of cash flows using direct method to calculate the cash flows from operating activities.
    - Prepare statement of cash flows using indirect method to calculate cash flows from operating activities.
2. State two items which cannot be considered as cash flow.

Assignment 09

Santh PLC
Statement of profit and loss for the year ended 31.03.2017

(Rs.000)

	Note	Amount	Amount
Sales			20 000
Cost of sales			(8 000)
Gross profit			12 000
Other income			400
			12 400
Distribution cost		2 300	
Administration expenses		2 700	
Finance expenses		1 000	
Other expenses		400	(6 400)
Profit before tax			6 000
Income tax			(1 500)
Profit for the year			4 500
Surplus on land revaluation			2 500
Total comprehensive income			7 000

Santh PLC
Statement of changes equity for the year ended 31.03.2017

(Rs.000)

Description	Ordinary sales	Revaluation reserves	General reserves	Retained earnings	Total
Balance at 01.04.2016	8 000	1 500	2 000	4 200	15 700
Share issue	1 000	-	-	-	1 000
Right issue	2 000	-	-	-	2 000
Reserve capitalization	2 000	-	-	(2 000)	-
Total comprehensive income	-	2 500	-	4 500	7 000
Dividend paid	-	-	-	(1 000)	(1 000)
Transfer to general reserves	-	-	500	(500)	-
Balance at 31.03.2017	13 000	4 000	2 500	5 200	24 7000

Santh PLC
Statement of changes in equity for the year ended 31.03.2017

(Rs.000)

Asset	Note	Amount 2017.03.31	Amount 2016.03.31
Non-current asset			
Property , plant and equipment		18 000	15 300
Investment		2 000	1 000
Current assets			
Closing inventory		2 200	1 000
Trade receivables		2 500	1 500
Treasury bills (03 months)		500	-
Cash		1 700	200
Total assets		26 900	19 000
Equity & labilities			
Stated capital			
Ordinary shares		13 000	8 000
Reserves			
Revaluation reserves		4 000	1 500
General reserves		2 500	2 000
Retained earnings		5 200	4 200
Non-current liabilities			
Bank loan		1 700	2 600
Current liabilities			
Trade payables		500	700
Total equity an liabilities		26 900	19 000

Additional information:

1. Interest for bank loan was included under finance expenses.
2. All purchase and sales were on credit term.
3. During the year, equipment cost, Rs.1 000 000 was sold with a profit of Rs.400 000.
4. Stock as at 31.03.2017 at cost was Rs.2 600 000. Net reliable value of it was estimated as Rs.2200 000. Stock written of Rs.400 000 was included under other expenses.

Santh PLC
Property, plant and equipment

Description	Land	Buildings	Motor vehicles	Equipment	Total
Balance at 01.04.2016	4 500	5 800	1 200	5 700	17 200
Additions	-	-	2 000	-	2000
Disposal	-	-	-	(1 000)	(1 000)
Revaluations	2 500	-	-	-	2 500
Balance as at 31.03.2017	7 000	5 800	3 200	4 700	20 700

Accumulated depreciation					
Balance as at 01.04.2016	-	800	300	800	1 900
Depreciation expense	-	400	500	300	1200
Disposal	-	-	-	(400)	(400)
Balance as at 31.03.2017	-	(1 200)	(800)	(700)	(2 700)
Carrying amount	7 000	4 600	2 400	4 000	18 000

Required:

1. Statement of cash flows using direct method as LKAS 7
2. Statement of cash flows using indirect method as LKAS 7

Past Paper Questions

2012 A/l

01. Which of the following ratios are used to measure financial stability and liquidity respectively of an entity?
    (1) Debt-equity Ratio and Current Ratio.
    (2) Quick Ratio and Debtors Turnover Ratio.
    (3) Interest Cover Ratio and Total Assets Turnover Ratio.
    (4) Return on Total Assets Ratio and Current Ratio.
    (5) Debt Ratio and Total Assets Turnover Ratio.

02. When a debtor settles his dues, what is the impact on the Current Ratio and the Quick Ratio of a company?

	Current Ratio	Quick Ratio
(1)	Decrease	Decrease
(2)	Increase	Increase
(3)	Increase	Decrease
(4)	Decrease	Increase
(5)	No change	No change

- **Use the following information to answer questions No. 03 and 04.**

Extracts of the balance sheets of Sumudu PLC as at 31.03.2012 and 31.03.2011 in relation to plant and machinery are given below.

	31.03.2012 (Rs.'000)	**31.03.2011 (Rs.'000)**
Plant and machinery – at cost	1 500	1 000
Accumulated depreciation	500	400

Additional Information;

The company sold a machine which had a cost Rs. 300 000 for Rs. 160.000 on 31.03.2012. On this date, the carrying amount of the machine was Rs. 200 000. On the same day a new machine was acquired for cash.

03. State the cash inflows and outflows from investment activities relating to plant and machinery during the year ending 31.03.2012.

    (a) Cash Inflows ……………………………………………………………………………………………………….

    (b) Cash Outflows ………………………………………………………………………………………………………

04. Identify a non-cash item (with value) resulting from the above transactions.

    ……

The following information has been extracted from the financial statements of Amila PLC for the year ending 31.03.2012.

	Rs.'000
Stated ordinary share capital …………………………	600
Retained earnings ………………………………………………	400
15% debentures ………………………………………………	500
Current liabilities ……………………………………………	300
Non-current assets …………………………………………	1 250
Current assets:	
Inventory …………………………………………………………	300
(Inventory as at 01.04.2011 Rs. 500 000)	
Debtors……………………………………………………	400
Cash and cash equivalent ……………………………	50
Sales ………………………………………………………………	3 000
Cost of sales …………………………………………………	2 200
Income tax for the year ………………………………	200
Profit for the year …………………………………………	400

Required;

(1) Quick Ratio
(2) Inventory Turnover Ratio
(3) Return on Total Assets Ratio
(4) Debt-equity Ratio
(5) Interest Cover Ratio

The summarized balance sheets of Ganga PLC as at 31.03.2012 and 31.03.2011 are as follows:

	31.03.2012(Rs.'000)	31.03.2011 (Rs.'000)
Land	1 250	1 600
Buildings	250	150

Accumulated depreciation-buildings	(115)	(90)
Plant and machinery	400	400
Accumulated depreciation-plant and machinery	(120)	(80)
Inventory	125	150
Debtors	750	600
Cash at bank	100	70
Total	**2 640**	**2 800**
Stated ordinary share capital	800	800
Retained earnings	480	300
Long-term loan (obtained on 31.03.2011)	800	1 000
Creditors	450	620
Interest payable	60	-
Income tax payable	50	80
Total	**2 640**	**2 800**

Additional Information;

I. Profit before income tax for the year ending 31.03.2012 was Rs. 200.000.
II. Of the interest payable on the loan for the year ending 31.03.2012 only half has been paid.
III. During the year ending 31.03.2012 an extension has been made to the building incurring a cost of Rs. 100 000. Further, during the year, a block of land belonging to the company has been sold for Rs. 600 000 on cash.
IV. No plant and machinery have been acquired or sold during the year ending 31.03.2012.
V. There have not been share issues or dividend payments during the year ending 31.03.2012

Required;

Cash Flow Statement for the year ending 31.03.2012, according to the relevant Sri Lanka Accounting Standard,

<u>2013 A/l</u>

01. A company which is engaged in a trading business has a current ratio of 3:1. Which of the following transactions of the company will lead to a decline in the ratio?
    (1) Obtaining a long-term loan.
    (2) Sale of inventories on credit with a profit.
    (3) Purchase of a machine for cash.
    (4) Receipt of cash from debtors.
    (5) Payment of cash to creditors.

02. The following information relates to a company for the year ending 31.03.2013.

	Rs. '000
Sales	900
Cost of sales	600
Inventory as at 01.04.2012	125
Inventory as at 31.03.2013	175

Assume number of working days per annum to be 360.

The inventory resident period of the company for the year ending 31.03.2013 is:

(1) 60 days.
(2) 70 days.
(3) 75 days.
(4) 90 days.
(5) 105 days.

03.The following information relates to a company for the year ending 31.03.2013.

	Rs. '000
Profit for the year	850
Depreciation	120
Gain on sale of a building	50
Increase in inventories	20
Decrease in debtors	40

The cash flows from operating activities of the year was:
(1) Rs. 760 000.
(2) Rs. 800.000.
(3) Rs. 900 000.
(4) Rs. 920 000.
(5) Rs. 940 000.

The summarized income statements of Madura PLC and Sumudu PLC for the year ending 31.03.2013 are given below.

	Madura PLC (Rs. '000) '000)	**Sumudu PLC (Rs**
Sales	6 000	7 500
Cost of sales	(4 000)	(5 800)
Gross profit	2 000	1 700
Expenses	(1 100)	(800)
Profit before tax	900	900
Income tax	(300)	(300)
Profit for the year	**600**	**600**

The following information is also available for the year ending 31.03.2013.

	Madura PLC (Rs. '000) '000)	**Sumudu PLC (Rs**
Average inventory	1 600	2 900
Average trade debtors	2 400	2 500
Equity as at 31.03.2013	3 000	2 400
Long-term loans as at 31.03.2013	3 600	1 800
Loan interest included in expenses	300	200

Required;

(1) The following ratios for both companies:
   (i) Return on equity
   (ii) Interest cover
   (iii) Inventory turnover
   (iv) Debtors' turnover (Assume all sales are made on credit basis)
   (v) Debt equity

(2) Based on the calculations in (1) above, state the following with reasons
   (i) The company that generates a higher return for the owners
   (ii) The company that uses more debt capital
   (iii) The company that takes a longer period to collect money from debtors
   (iv) The company that sells inventory within a shorter period
   (v) The company that has a higher ability to pay interest on loans

03. The summarized financial statements of Kumudu PLC are given below.

Kumudu PLC

Income Statements for the year ending 31.03.2013

	Rs. '000	Rs. '000
Sales		7 200
Cost of sales		(4 200)
Gross profit		3 000
Gain on sale of land		300
Depreciation – Building	500	
- Office equipment	800	
Other expenses	1 000	(2 300)
Profit before tax		1 000
Income tax		(300)
Profit for the year		700

Kumudu PLc

Statement of Financial Position (Balance Sheet) as at 31st March

	2013 (Rs. '000)	2010 (Rs. '000)
Land	5 000	9 000
Building at cost	10 000	10 000
Accumulated depreciation – Building	(5 000)	(4 500)
Office Equipment at cost	8 000	4 000
Accumulated depreciation – Office equipment	(2 400)	(1 600)
Inventory	1 400	1 000
Trade debtors	1 500	1 200
Cash at bank	1 500	500
	20 000	**19 600**
Stated ordinary share capital	14 000	13 000
Retained earnings	4 200	4 000
Trade creditors	1 500	2 000
Income tax payable	300	600
	20 000	**19 600**

Additional Information:

(i) All purchases and sales are on credit basis.
(ii) On 01.04.2012, the company issued 10 000 shares for Rs. 1000000.
(iii) Part of the land was sold for Rs. 4300.000 on cash.
(iv) On 31.03.2013, office equipment of Rs. 4000 000 was bought on cash.
(v) An interim dividend of Rs. 500 000 was paid during the year.

Required:

Cash Flow Statement of Kumudu PLC for the year ending 31.03.2013 according to the relevant Sri Lanka Accounting Standard

2014 A/l

- **Use the following information of a company to answer questions No. 01 and 02.**

	As at 31.03.2014	As at 31.03.2013
	Rs.	Rs.
Total Assets	2 200 000	1 800 000
Stated ordinary share capital	500 000	500 000
Retained earnings	700 000	300 000

For the year ending 31.03.2014:

	Rs
Interim dividend paid to ordinary shareholders	100 000
Interest on bank loans	125 000
Income tax for the year	75 000

01. The profit to be used in calculating the return on equity ratio of the company as at 31.03.2014.
(1) Rs. 300 000
(2) Rs. 400 000
(3) Rs. 500 000
(4) Rs. 600 000
(5) Rs. 700 000

02. The return on total assets ratio (based on average total assets) of the company:
(1) 15%
(2) 20%
(3) 25%
(4) 30%
(5) 35%

03. State the impact (increase, decrease or no change) of each of the following transactions on the quick asset's ratio of a company.

	Transactions	Impact
A-	Received cash from debtors	……………………………………………………………….
B-	Returned goods purchased on credit basis	……………………………………………………………….
C-	Paid insurance premium for the next year	……………………………………………………………….
D-	Received cash from sale of a motor vehicle	……………………………………………………………….

04. The sales of a company during the year ending 31.03.2014 were Rs. 9000000 of which 80% was on credit. The gross profit margin on sales of the company is 30%. The following information is also available.

	As at 31.03.2014 (Rs.)	**As at 31.03.2013 (Rs.)**
Trade debtors	1 000 000	800 000
Inventory	500 000	900 000

Calculate the following as at 31.03.2014, assuming the number of working days in the year as 360.

a) Debtors' turnover ratio ………………………………………………………………………….

b) Inventory residence period ………………………………………………………………………….

04. The following information pertains to company for the year ending 31.03.2014

	Rs.
Profit for the year	800 000
Depreciation for the year	100 000
Increase of inventory	120 000
Decrease of debtors	200 000
Increase of creditors	180 000

What is the net cash flow generated from the operating activities of the company during the year ending 31.03.2014?

(1) Rs. 640 000
(2) Rs. 800 000
(3) Rs. 900 000
(4) Rs. 960 000
(5) Rs. 1 160 000

05. Classify cash outflows relating to the following transactions of a trading company under operating, investing and financing activities indicating with a '' in the appropriate column.

Transaction	**Activity**		
	Operating	**Investing**	**Financing**
Settlement of amounts due to the suppliers of goods	…………………	……………..	………………
Payment of the annual lease instalment to a lease creditor	………………..	……………..	………………..
Payment of dividends to ordinary shareholders	…………………	………………	………………
Purchase of a motor vehicle on cash	…………………	…………….	…………………

05. Sathsara PLC commenced operations on 01.04.2013 and its financial statements for the first year of operations are given below.

Summarized Statement of Comprehensive Income for the year ending 31.03.2014

	Rs. '000
Sales …………………………………………………………………………………………….	6 250
Cost of sales ……………………………………………………………………………………	(2 850)
Gross profit ………………………………………………………………………………………	3 400
Expenses …………………………………………………………………………………………	(2 500)

Profit before tax	900
Income tax for the year	(300)
Profit for the year	**600**
Total comprehensive income for the year	**600**

Summarized Statement of Financial Position as at 31.03.2014

	Rs. '000
Property, plant and equipment at carrying amount	6 000
Inventory	1 500
Trade receivables (Trade debtors)	4 000
Cash at bank	1 000
	12 500
Stated ordinary share capital (100 000 shares issued at Rs. 70 per share)..	7 000
Retained earnings	500
12% Bank loan (obtained on 01.04.2013 for 5 years)	2 500
Trade payables (Trade creditors)	2 150
Tax payable	200
Interest payable	150
	12 500

Additional Information:

(i) All sales and purchases been made on credit basis.

(ii) Property, plant and equipment was purchased on cash and depreciated as follows. This depreciation is included in expenses.

Assets	**Depreciation for the year (Rs. '000)**	**Carrying amount as at 31.03.2014 (Rs. '000)**
Motor vehicles	400	3 600
Office equipment	600	2 400
	1 000	**6 000**

(iii) The expenses also include the interest on the bank loan. However, only half of this interest has been paid during the year.

(iv) The company has paid an interim dividend during the year.

Required:

(1) Compute the following:
- (i) Return on equity ratio
- (ii) Interest cover ratio
- (iii) Current ratio
- (iv) Debt ratio
- (v) Assets turnover ratio (based on year-end total assets)

(2) Cash Flow Statement of Sathsara PLC for the year ending 31.03.2014 as per LKAS 7 (Statement of Cash Flows)

2015 A/l

01. The following information is given in relation to a company for the year ending 31.03.2015.

Description	Rs. '000
Profit for the year	750
Provision for income tax for the year	50
Loss on sale of office equipment	20
Income tax paid	20
Depreciation on office equipment	70
Increase in inventory	230
Decrease in trade creditors	120

What is the net cash flow generated from operating activities of the company for the year ending 31.03.2015 as per LKAS 7 (Statement of Cash Flows)?
(1) Rs. 470 000
(2) Rs. 520 000
(3) Rs. 540 000
(4) Rs. 1 170 000
(5) Rs. 1 220 000

02. What does a high debtor's turnover ratio of a company Indicate?
(i) Its debtors are making the payments quickly.
(ii) Its debtors are not making the payments quickly.
(iii) A large portion of its sales are made on credit basis.
(iv) Its debt collection period is high.
(v) Its sales are increasing.

03. The current ratio and the quick assets ratio of a company were 1.2 times and 0.8 times respectively. What is the effect of purchasing goods on credit on these two ratios while all other factors remaining unchanged?

Current Radio	Quick-assets Radio
(1) Increase	Increase
(2) Increase	Decrease
(3) Decrease	Decrease
(4) Decrease	Increase
(5) No change	No change

04. Classify the cash inflows arising from following transactions of a manufacturing company under operating, investing and financing activities as per LKAS 7 (Statement of Cash Flows) indicating with a '✓' in the appropriate column.

Transaction	Activity: Operating	Investing	Financing
A- Receipt of cash from the issue of ordinary shares	....	....	....
B- Receipt of cash from the trade debtors	....	....	....
C- Receipt of cash from the sale of a motor vehicle	....	....	....
D- Receipt of interest on a fixed deposit	....	....	....

- Use the following information of a company to answer questions No. 05 and 06.

Description	**Rs '000**
For the year ending 31.03.2015:	
Profit	500
Interest expense	150
Income tax expense	100
Interim dividend paid on ordinary shares	300
Stated ordinary share capital as at 31.03.2015	1 800
Retained earnings as at 01.04.2014	2 500
Total assets as at 31.03.2015	7 500

05. Calculate the following:
    (a) Interest cover ratio (times) ………………………………………………
    (b) Return on total assets ratio based on year-end assets (%)………………………………………………..

06. Calculate the following:
    (a) Equity as at 31.03.2015 Rs. ……………………………………………………………
    (b) Debt ratio (%) ……………………………………………………………

The following information relates to Pearl PLC.

Description	**As at 31.03.2015 (Rs. '000)**	**As at 31.03.2014 (Rs.'000)**
Trade receivables	540	420
Inventory	1 800	2 200
Cash and cash equivalent	660	380
Trade payables	1 200	1 800
Interest payable	300	200

For the year ending 31.03.2015:	**(Rs. '000)**
Total sales	8 000 (of which 60% is credit sales)
Purchases	3 600
Profit	2 400

Assume the number of working days per year as 360.

Required:

For the year ending 31.03.2015

(1) Net profit ratio
(2) Gross profit ratio
(3) Current ratio ratio
(4) Trade receivables (Debtors turnover ratio
(5) Inventory residence period

The summarized Statements of Financial Positions of Sumudu PLC as at 31.03.2015 and 31.03.2014 are given below:

	As at 31.03.2015 (Rs. '000)	As at 31.03.2014 (Rs.'000)
Property, plant and equipment (PPE) at cost	19 600	13 100
Accumulated depreciation – PPE	(3 800)	(2 800)
Inventory	1 500	1 400
Trade receivables	1 600	1 800
Cash and cash equivalent	400	500
Total assets	**19 300**	**14 000**
Stated ordinary share capital	9 500	8 000
Retained earnings	5 500	4 400
Loan for land	2 400	-
Trade payables	1 750	1 600
Interest payable on loan.	150	-
Total liabilities and equity	**19300**	**14 000**

Additional Information:

I. Office equipment costing Rs. 1000000 was sold for Rs. 300000 on cash during the year. On the date of the sale, the carrying amount of this equipment was Rs. 600.000.

II. A land worth Rs. 3.000.000 was purchased on 01.04.2014 on credit. This loan is payable in 5 equal instalments of Rs. 600000 from the current year. Further, 5% annual interest is payable on the principal amount of the loan.

III. All other acquisitions on PPE during the year have been made in cash.

IV. An interim dividend of Rs. 400 000 was paid during the year.

V. The composition of ordinary shares issued during the year was as follows:

Type of issue	Amount (Rs.'000)
Rights issue of shares	1 000
Issues of shares by capitalizing retained earnings	500
Total	**1 500**

All rights were exercised by the shareholders and cash was duly received.

VI. The company is operating on a tax holiday period.

Required:

1. Statement of Cash Flows of Sumudu PLC for the year ending 31.03.2015 as per LKAS 7 (Statement of Cash Flows)
2. Office Equipment Disposal Account

<u>2016 A/l</u>

01. The summarized income statement of Manel PLC for the year ending 31.03.2016 was as follows:

Description	**Rs. '000**
Gross profit	280
Expenses (including depreciation Rs. 20000 and loss on sale of office equipment Rs. 10000)	100
Income tax expense	80

Profit for the year	100

During the year ending 31.03.2016, the balances of following items have increased as follows:

Description	**Rs. '000**
Inventory	80
Trade receivables	120
Trade payables	130

The income tax paid during the year was Rs. 50.000.

What was the net cash flow generated from operating activities during the year ending 31.03.2016 as per LKAS 7 (Statement of Cash Flows)?

(1) Rs. 10000
(2) Rs. 90 000
(3) Rs. 150000
(4) Rs. 180000
(5) Rs. 230000

02. The following information has extracted from the income statement of a company for the year ending 31.03.2016.

Sales	Rs. 4000 000
Profit for the year	Rs.200 000
Interest expenses	Rs. 60 000
Income tax expense	Rs. 40 000

What were the net profit ratio and the interest cover ratio for the year ending 31.03.2016?

Net profit ratio (%)	**Interest cover ratio (Times)**
(1) 5	3.3
(2) 5	5
(3) 6	4
(4) 6	5
(5) 7.5	4

03. The following information relates to a company for the year ending 31.03.2016.

- During the year, an office equipment costing Rs. 250000 was sold for a gain of Rs. 50000. On the date of sale, the accumulated depreciation of this asset was Rs. 120000.
- On 01.04.2015, a land costing Rs. 1500000 was purchased by paying Rs. 500000 in cash in hand and the balance by a bank loan obtained by mortgaging the land. An interest of Rs. 100000 was paid on this loan on 31.03.2016.

State the cash flows arising due to above transactions (with value) and the appropriate classification of these cash flows in terms of LKAS 7 (Statement of Cash Flows).

	Cash flow	**Amount (Rs.)**	**Classification**
A-	…………………………………………	…………………………………	…………………………………………………
B-	…………………………………………	…………………………………	…………………………………………………
C-	…………………………………………	…………………………………	…………………………………………………
D-	…………………………………………	…………………………………	…………………………………………………

04. State whether an Increase in the each of the following ratios will indicate an improvement in the liquidity of a company while other factors remain constant.

Ratio	Improvement in liquidity (Yes/No)
A- Debtors' turnover	…………………………………………..
B- Debt collection period	…………………………………………..
C- Inventory turnover	…………………………………………..
D- Inventory retention period	…………………………………………..

The following information relates to Upul PLC for the year ending 31.03.2016.

Gross profit ratio	20%
Assets turnover ratio	0.5 times
Inventory turnover ratio	8 times
Gross profit	Rs. 400 000
Total expenses	Rs. 160 000
Total liabilities as at 31.03.2016	Rs. 1 600 000

Required:

(1) Sales for the year ending 31.03.2016
(2) Average inventory for the year 2015/16
(3) Total assets as at 31.03.2016
(4) Return on equity ratio
(5) Equity ratio

The summarized statements of financial positions of Nayagam PLC as at 31.03.2016 and 31.03.2015 are given below:

Description	**As at 31.03.2016 (Rs.'000)**	**As at 31.03.2015 (Rs. '000)**
Property, plant and equipment (PPE)- at revalued amount	312	240
Accumulated depreciation – PPE	(72)	(40)
Inventory	184	104
Trade receivables	80	120
Provision for doubtful debts	(32)	(16)
Cash	192	-
Total assets	**664**	**408**
Stated ordinary share capital	280	40
Revaluation reserve	56	16
Retained earnings	32	96
Long-term loan	120	-
Trade payables	136	144
Salaries payable	40	32
Bank overdraft	-	80
Total liabilities and equity	**664**	**408**

Additional information:

(i) Summarised income statement of the company for the year ending 31.03.2016 is as follows:

Description	**Rs.'000**
Sales	120
Cost of sales	(80)
Commission income (no receivables at the year-end)	8
Gain on sale of furniture (of which carrying amount was Rs. 40 000)	16
Doubtful debts	(16)
Depreciation	(40)
Salaries	72
Loss for the year	(64)

(ii) PPE have been revalued during the year. The purchases of PPE during the year have been made on cash.

(iii) A share issue was made during the year and a loan obtained for 3 years on 31.03.2016.

Required:

Statement of Cash Flows of Nayagam PLC for the year ending 31.03.2016 as per LKAS 7 (Statement of Cash Flows)

2017 A/l

01. An extract of the Income Statement of Dimuthu PLC for the year ending 31.03.2017 is given below.

	Rs. '000
Revenue	8 000
Cost of sales	2 000
Operating expenses (including depreciation of Rs.1 000 000)	3 000

The following information has been extracted from the Statement of Financial Position of the company.

	As at 31.03.2017 (Rs. '000)	**As at 31.03.2016 (Rs. '000)**
Trade payables	400	200
Inventory	900	600

The company sells goods only on cash basis and is operating within a tax holiday period.

What is the net cash flow generated from operating activities for the year ending 31.03.2017?

(1) Rs.2 900 000
(2) Rs.3 000 000
(3) Rs.3 900 000
(4) Rs.4 000 000
(5) Rs.4 100 000

02. The following information relates to a manufacturing company. For the year ending 31.03.2017:

Current ratio	2 : 1	Sales	Rs. 600 000
Current liabilities	Rs. 300 000	Gross profit Margin	25 %
Inventory	Rs. 120 000		

Inventory as at 01.04.2016 was Rs. 180000.
What is the quick ratio and the inventory turnover ratio of the company?

	Quick Ratio (Times)	Inventory Turnover Ratio (Times)
(1)	0.4	3.75
(2)	0.625	3
(3)	0.625	4
(4)	1.6	3
(5)	1.6	4

03. The current ratio of a retail business as at 31.03.2017 was 2:1. While other factors remain constant, which of the following transaction leads to a reduction in this ratio?
(1) Receipt of an advance for a sale of goods
(2) Sale of goods on credit with a profit margin
(3) Return of goods previously purchased on credit
(4) Sale of a motor vehicle on cash
(5) Obtaining a long-term loan from a bank

04. The following information relates to two manufacturing companies for the financial year ending 31.03.2017.

Ratio	**R PLC**	**Q PLC**
Debt- equity (times)	1.5	0.8
Interest cover (times)	2.5	3.2
Return on equity	25%	20%
Quick assets	0.8:1	1:2:1

State the following in relation to these companies.
A- The company that generates a higher return to shareholders ....
B- The company that has a higher ability to cover interest expenses ....
C- The company that uses more debt capital to acquire assets ....
D- The company that is more capable of settling short-term obligations ....

05. State whether the return on equity ratio and the debt-equity ratio of a company as at 31.03.2017 increases (1), decreases (D) or remain unchanged (NC) in each of the following transactions while other factors remain constant. (Assume that all these transactions took place on 31.03.2017.)

Transaction	**Return on Equity Ratio**	**Debt-Equity Ratio**
A. Obtaining a long-term loan from a bank at 12% interest rate	……………………….	……………………….
B. Making a rights issue of shares where all rights were subscribed by existing shareholders	……………………….	……………………….

The following information relates to Mangala PLC.

For the year ending 31.03.2017:

Description	**Rs. '000**
Sales	6 300
Profit after tax for the year	1 200
Interest expense	300
Tax for the year	600

As at 31.03.2017:

Total Assets:	**Rs. '000**
Property, plant and equipment	3 000
Inventory	500
Trade receivables	800
Cash	200
Total liabilities:	
Trade payables	500
Bank loan (Payable after 3 years)	1 000

Additional information:

(i) Trade receivables as at 31.03.2016 was Rs.600.000.

(ii) All sales were made on credit basis.

Required:

For the year ending 31.03.2017:

(1) Current ratio
(2) Debtors' turnover ratio (based on average debtors)
(3) Return on equity ratio
(4) Interest cover ratio
(5) Assets turnover ratio (based on year-end assets)

The following information relates to Ravindu PLC.

- An extract of the Statement of Profit or Loss and Other Comprehensive Income for the year ending 31.03.2017:

	Rs. '000
Gross profit	5 600
Gain on sale of property, plant and equipment	700
Operating expenses	(800)
Depreciation	(1 200)
Finance expenses	(1 300)

Profit before tax	3 000
Income tax	(1 800)
Profit for the year	1 200

- The summarized Statements of Financial Positions:

Description	**As at 31.03.2017 (Rs. '000)**	**As at 31.03.2016 (Rs. '000)**
Non- Current Assets		
Property, plant and equipment-at cost	37 000	30 000
Accumulated depreciation	(12 000)	(14 900)
	25 000	15 100
Current Assets		
Inventory	2 000	3 000
Trade receivables	9 000	8 000
Cash and cash equivalents	2 000	1 900
Total Assets	38 000	28 000
Equity		
Stated capital – ordinary shares	18 000	10 000
Retained earnings		1 800
Non-Current Liabilities		
Bank loan	7 000	8 000
Current liabilities		
Trade payables	6 000	4 000
Accrued finance expenses	4 000	3 000
Accrues income tax	900	1 200
Total Equity and Liabilities	38 000	28 000

Additional information:

(i) An item of property, plant and equipment purchased for Rs.9000000 was solo for cash on 31.03.2017. The accumulated depreciation of this asset on this date was Rs. 4100000.

(ii) Dividends of Rs.900000 have been paid during the year.

(iii) Cash received from the share issue during the year was Rs.8000000.

Required:

Statement of Cash Flows of Ravindu PLC for the year ending 31.03.2017 as per LKAS 7 (Statement of Cash Flows)

2018 A/l

01. Saranga PLC is engaged in selling garments. The summarized cash account of this company for the year ending 31.03.2018 is given below.

Cash Account (Rs.)			
Balance – 01.04.2017	70 000	Creditors control	720 000
Sales	850 000	Rent expenses payable	40 000
Debtors control	550 000	Distribution expenses	180 000
Dividend income	10 000	Administrative expenses	270 000
Bank loan	500 000	Purchase of a motor vehicle	560 000
		Income tax	125 000
		Balance – 31.03.2018	85 000
	1 980 000		**1 980 000**

The net cash flow generated from operating activities for the year ending 31.03.2018 as per LKAS 7 (Statement of Cash Flows):

(1) Rs. 65 000
(2) Rs. 75 000
(3) Rs. 85 000
(4) Rs. 115 000
(5) Rs. 190 000

02. The following information is relevant to Saman PLC for the year ending 31.03.2018.

	Rs. '000
Sales (All sales are on credit basis)	2 400
Gross profit	1 400
Average inventories	200

Debt collection period for the year ending 31.03.2018 was 45 days. Assume that the numbers of days for a year is 360.

The inventory residence period and the average debtors of this company for the year ending 31.03.2018:

Inventory Residence Period (Days)	**Average Debtors (Rs.)**
(1) 30	53 333
(2) 30	125 000
(3) 30	300 000
(4) 72	53 333
(5) 72	300 000

03. Which of the following statements is false in relation to accounting ratios of a company? (Assume that other factors affecting each situation remain constant.)
    (1) An increase in the income tax rate in the current year does not impact on the interest-cover ratio.
    (2) An increase in the debtor's turnover ratio compared to the last year indicates the adoption of an effective debt collection strategy in the current year.
    (3) An increase in the inventory residence period compared to the last year indicates the adoption of an effective inventory management policy in the current year.
    (4) An increase in cash and cash equivalents compared to the last year indicates an increase in the liquidity ratios in the current year.
    (5) An increase in the closing stock compared to the last year will not affect the quick assets ratio in the current year.

04. Indicate how the adjustment of following items in the financial statements of a public limited company will lead to **increase (I)**, **decrease (D)** or **no change (NC)** in its profit. (These items are not yet adjusted in the books.)

	Impact on profit (Indicate as I,D,NC)
A- Accrued electricity	…………………………………………………..
B- Interest income receivable	…………………………………………………..
C- Discounts received from creditors	…………………………………………………..
D - Surplus on revaluation of a land for the first time	…………………………………………………

05. State two items each that are reported as cash outflows from investing activities and financing activities as per LKAS 7 (Statement of Cash Flows).

Catergory	**Item**
(a) Investing activities	1. …………………………………………………………………..
	2. …………………………………………………………………..
(b) Financing activities	1. …………………………………………………………………..
	2. …………………………………………………………………..

06. Inventory turnover ratio and current ratio of a retail business were 10 times and 2:1 respectively. But subsequently it was found that the following transactions had been omitted from the books.
    When these transactions are considered, state whether the inventory turnover ratio and current ratio will **increase (I), decrease (D) or no change (NC).**

Transaction	**Inventory turnover Ratio (I/D/NC)**	**Current ratio (I/D/NC)**
(a) Sale of goods costing Rs. 500000 for Rs.800000 on credit	………………………	……………………………….
(b) Purchase of goods costing Rs.250000 on credit	………………………	……………………………….

07. The following information was extracted from the financial statements of Ananda PLC for the year ending 31.03.2018.

	Rs.'000
Gross profit	4 800
Cost of sales	7 200
Other income	1 500
Operating and financing expenses	4 500
Other comprehensive income	1 500

The income tax rate of the company is 20% on profit before tax.

The following ratios of the company for year ending 31.03.2018:
(a) Gross profit ratio (%) …………………………. (b) Net profit ratio (%) ……………………….

The summarized statement of financial position of Bowattha PLC as at 31.03.2018 and 31.03.2017 are given below.

Description	As at 31.03.2018 (Rs.000)	As at 31.03.2017 (Rs.000)
Property, Plant and equipment – (Carrying amount)	28 000	19 000
Inventory	9 680	8 800
Trade receivables	9 500	10 500
Cash and cash equivalents	5020	2 200
Total assets	**52 200**	**40 500**
Stated capital ordinary shares	22 800	18 000
Revaluation reserve	2 000	-
Retained earnings	5 200	2 500
Long term loans	10 500	10 100
Trade payables	8 600	8 100
Provision for income tax	500	400
Bank overdraft	2 600	1 400
Total Equity and liabilities	**52 200**	**40 500**

Additional information:

1. The profit before tax and after tax for the year ending 31.03.2018 were Rs.6 000000 and Rs.4 500 000 respectively.
2. Total interest expense on long- term loan for the year ending 31.03.2018 was Rs.600 000. The accrued interest in this respect was Rs.400 000 and it has been erroneously added to the long –term loan balance as at 31.03.2018.
3. Depreciation expenses for the year ending 31.03.2018 was Rs.1 250 000. During the year ending 31.03.2018, a new motor vehicle was purchased for cash and the land was revealed for the first time resulting a surplus. There were no other additions or disposals of property, plant and equipment during the year.

4. The company made a public issue of share during the year and paid an interim dividend for ordinary shareholders on 01.01.2018.
5. Long term loan is payable from 31.03.2020.

Required

01. Statement of cash flows for the year ending 31.03.2018 as per LKAS 7 (statement of cash flows). (Use the indirect method to calculate cash flows from operating activities)
02. Following ratios for the current year:
    i. Current ratio
    ii. Quick asset ratio
    iii. Return on equity ratio
    iv. Debt – equity ratio
    v. Interest cover ratio

2019 A/l

01. Following information relates to a company as at 31.03.2019.

Current ratio	2 times
Current liabilities	Rs. 60 000
Inventory	Rs. 48 000

Inventory as at 01.04.2018 was Rs. 32000. Further, sales for the year ending 31.03.2019 was Rs. 300000 and its gross profit ratio was 20%.
The inventory turnover ratio for the year ending 31.03.2019 and quick assets ratio as at 31.03.2019:

	Inventory Turnover Ratio (Times)	Quick Assets Ratio (Times)
(1)	5	1.2
(2)	6	1.33
(3)	6	1.2
(4)	6.25	1.33
(5)	7.5	1.2

02. The return on equity ratio calculated for Saman PLC for the year ending 31.03.2019 was 20%. However, following transactions have not been considered when preparing its financial statements for the year ending 31.03.2019.
    A- Surplus of Rs.500 000 that resulted from the revaluation of the first time
    B- Capitalization of reserves of Rs. 800000
    C- Return outwards of Rs. 200.000

    Which of the above transaction/s will lead to an increase return on equity ratio of the company?
    (1) A only
    (2) B only
    (3) C only
    (4) A and B only
    (5) B and C

03. The following information has been provided with respect to Amali Traders, a sole trader, as at 31.03.2019.

	Rs.
Total assets	2 750 000
Total liabilities	1 650 000

Equity of the business as at 31.03.2018 was Rs. 800 000.

During the year ending 31.03.2019, the owner of the business has drawn Rs. 250000 and invested Rs. 450000 as additional capital.
State the following:

(a) Equity as at 31.03.2019 : Rs. ……………………………………………………

(b) Profit for the year ending 31.03.2019 : Rs. ……………………………………………………

04. State whether the following statements are true (T) or false (F) with respect to accounting ratio analysis of a firm.

	Statement	True or false
A.	A high inventory turnover ratio indicates a low stock residence period	………………………………
B.	Collection of money from debtors leads to a decrease in the current ratio.	………………………………
C.	A high interest cover ratio indicates low repayment ability of loans.	………………………………
D.	The valuation of year-end inventory at net realizable value has an impact on gross profit ratio.	………………………………

The following information relates to Anura PLC for the year ending 31.03.2019.

	Rs.'000
Sales revenue	9 000
Profit for the year	600
Income tax expense	40
Interest expenses	80

Further, the following balances were available as at 31.03.2019.

	Rs.'000
Ordinary share capital (total no. of shares issued 150000)	4 200
Total assets	8 400

Total assets and retained earnings as at 01.04.2018 were Rs. 6600000 and Rs. 1 200 000 respectively.
Assume that the liabilities of the company as at 31.03.2019 consisted only of long-term loans.

Required:
Calculate the following ratios for the year ending 31.03.2019:
(1) Net profit
(2) Interest cover
(3) Return on equity
(4) Earnings per share
(5) Debt to equity

The balances of some of the assets and liabilities of Nihal PLC were as follows:

Description	**As at 31.03.2019(Rs.)**	**As at 31.03.2018 (Rs.)**
Trade receivables	250 000	180 000
Trade payables	110 000	140 000
Operating expenses payable	15 000	-
Cash and cash equivalents	?	120 000

The following transactions took place in this company during the year ending 31.03.2019.

(i) Total sales and purchases for the year were Rs. 1 200000 and Rs. 550 000 respectively. (All sales and purchases were made on credit basis.)

(ii) The cash discount allowed to trade debtors during the year was Rs. 30000.

(iii) Total operating expenses for the year, including depreciation of Rs. 35000, was Rs. 95000.

(iv) The interest and income tax expenses for the year were Rs. 25000 and Rs. 65000 respectively. The interest paid and income tax paid during the year were Rs. 20000 and Rs. 75000 respectively.

(v) Total interim dividends paid during the year was Rs. 60000.

(vi) During the year, the company issued 30000 ordinary shares at Rs.20 each. This share issue includes the capitalization of reserves of Rs.200000. The money due on balance shares issued has been received during the year.

(vii) During the year, the company paid Rs. 220000 as part settlement of a long-term loan.

(viii) On 01.04.2018, the company purchased a new motor vehicle on cash. On the same day. an office equipment was sold for Rs.250000 on cash with a profit of Rs.80000. As a net result of these transactions and depreciation, the carrying amount of property, plant and equipment has increased during the year by Rs. 205000.

Required:
Statement of Cash Flows for the year ending 31.03.2019 as per LKAS 7 (Statement of Cash Flows). (Use direct method to identify operating cash flows.)

<u>2020 A/l</u>

01. Which of the following item/s should be classified as cash flows arising from the financing activities of a manufacturing business as per LKAS 7 (Statement of Cash Flows)?

    A- Cash received for dividends on the ordinary shares purchased in other entities.
    B- Cash paid to purchase debentures of other entities.
    C- Cash paid for the settlement of a lease liability.

    (1) B only.
    (2) C only.
    (3) A and B only.
    (4) B and C only.
    (5) All A, B and C.

- **Use the following information to answer questions no. 02 and 03.**
  The following information is provided by Kavinga PLC for the year ending 31.03.2020.

	Rs. '000
Sales	7 000
Cost of sales	4 200
Finished goods inventory as at 01.04.2019	800
Finished goods inventory as at 31.03.2020	600
Operating expenses	1 200
Interest expenses	320
Tax expense	400

The number of ordinary shares in issue was 400 000 and the equity of the business was Rs. 4 400 000 as at-31.03.2020.

02. The inventory turnover ratio and the interest cover ratio of the company:

Inventory Turnover Ratio (Times)	**Interest Cover Ratio (Times)**
(1) 6	4
(2) 6	5
(3) 6	5.6
(4) 7	4
(5) 7	5

03. The return on equity ratio and earnings per share of the company.

Return on Equity Ratio (Times)	**Earnings per share (Rs.)**
(1) 5	2.20
(2) 5	3.20
(3) 20	2.20
(4) 20	3.20
(5) 20	4.00

04. The quick assets ratio of a company as at 31.03.2020 was 1.1: 1. The current assets of the company include inventory of Rs. 250 000 and prepaid expenses of Rs. 50 000 in addition to other assets. On this day, the current liabilities were Rs. 500 000.

Calculate the following as at 31.03.2020:

(a) Current Assets : Rs. ………………………………………………………………………..

(b) Current ratio : ………………………………………………………………………………

The summarised Statements of Financial Position of Ashan PLC as at 31.03.2020 and 31.03.2019 are given below.

Description	**As at 31.03.2020 (Rs.'000)**	As at 31.03.2019 (Rs. '000)
Property, plant and equipment (Carrying amount)	35 500	30 100
Inventory	9 750	7 250
Trade receivables	8 500	10 750
Cash and cash equivalents	2 500	1 500
Total Assets	**56 250**	**49 600**
Stated capital – ordinary shares	28 000	20 000
Revaluation reserve	3 000	2 000
Retained earnings	6 500	2 200
Lease creditors	12 500	16 500
Trade payables	4 350	7 400
Provision for income tax	500	600
Bank overdraft	1 400	900
Total Equity and Liabilities	**56 250**	**49 600**

Additional information for the year ending 31.03.2020

1. During the year, the company paid an interim dividend of Rs. 1 200 000 and capitalized retained earnings of Rs. 2 000 000. Further, the company issued 100 000 ordinary shares to the public and its entire consideration was received.
2. Depreciation and income tax expense for the year were Rs. 2 100 000 and Rs. 1 160 000 respectively.
3. During the year, the company revalued its land for the first time at a surplus. There was no other revaluation during the year.
4. The company disposed a machine at a gain of Rs. 400 000 on 01.10.2019. This machine was purchased on 01.04.2017 for Rs. 3.000.000 and depreciated at 20% per annum on straight-line method. Further, a new vehicle was purchased for cash during the year.

Required:

Statement of Cash Flows of Ashan PLC for the year ending 31.03.2020 as per LKAS 7(Statement of Cash Flows)

The following information relates to three companies in the automobile industry for the year ending

Ratio	**Alpha PLC**	**Beta PLC**	**Gamma PLC**
Current	1.2:1	2.8:1	2.5:1
Quick Assets	0.96:1	2.5:1	2:1
Inventory turnover (Times)	9.5	8.3	6.2
Debtors Turnover (Times)	4.1	4.5	3.8
Debt to equity	65%	80%	60%
Return on total assets	9%	12%	14%

Required:

For each of the following situations, identify the relevant company and state the ratio that provides the basis for it.

(1) The company with the highest leverage
(2) The company which shows the highest efficiency in the inventory usage
(3) The company with the highest liquidity
(4) The company which generates the highest return on investment
(5) The company which shows the highest efficiency in collecting cash from the customers

2021 A/l

- **Use the following information to answer questions no. 01 and 02.**
  The following information relates to Delta PLC, which was incorporated on 01.04.2020.

For the year ending 31.03.2021:	**Rs.'000**
Profit before tax	1 080
Income tax for the year	80
Interest expenses	160
Dividends paid to ordinary shareholders	300
Equity as at 31.03.2021:	
Stated capital - Ordinary shares (Rs.20 each)	10 000
Retained earnings	700

01. Earnings per share and dividend per share of Delta PLC:

	Earnings per share (Rs.)	Dividend per share (Rs.)
(1)	1.68	0.03
(2)	2.00	0.03
(3)	2.00	0.60
(4)	2.16	0.03
(5)	2.16	0.60

02. Return on equity ratio and interest cover ratio of Delta PLC:

	Return on equity Ratio (%)	Interest Cover Ratio (Times)
(1)	9.09	6.25
(2)	9.35	6.75
(3)	9.35	7.75
(4)	10.00	6.25
(5)	10.00	7.75

03. Classify each of the following cash flows of an apparel manufacturing company as per LKAS 7 (Statement of Cash Flows).

	Cash Flow	Classification
A-	Cash received from a right issue of shares	………………………………
B-	Dividends received for the investments in shares of other companies	………………………………
C-	Settlement of the amount payable to a trade creditor	………………………………
D-	Made the down payment of a lease	………………………………

04. The following information has been extracted from the financial statements of Kavinda PLC for the year ending 31.03.2021.

	Rs.'000
Cost of sales	420
Opening inventory	80
Closing Inventory	60

Assume that the number of working days per annum as 360 days.

Identify the following:

a) Inventory turnover ratio : Times ………………………………………..
b) Inventory residence period: Days ………………………………………..

The following information has been extracted from the financial statements of Saranga PLC.

For the year ending 31.03.2021:	Rs.'000
Sales …………………………………………………	25 000
Cost of Sales ………………………………………	15 000
Other income ………………………………………	1 200
Operating expenses ………………………………	4 500
Finance expenses …………………………………	1 500
Profit before tax …………………………………	5 200
Income tax expenses………………………………	1 000

Balances of some assets and liabilities:	As at 31.03.2021 (Rs.'000)	As at 31.03.202 (Rs.'000)
Inventories	2 400	1 800
Trade receivables	5 200	6 000
Trade payables	3 500	4 250
Prepaid operating expenses	500	200
Accrued interest expenses	400	650
Income tax payable	300	450
Interest receivable on 5-year fixed deposit	400	-

Additional Information:

(i) All sales and purchases are made on credit basis.
(ii) The finance expenses entirely consist of interest expenses and it relates to operating activities.
(iii) The operating expenses include depreciation of Rs. 1 800.000
(iv) Other income consists of the following items.
  - Gain on disposal of a motor vehicle Rs.800 000
  - Interest receivable on the 5-year fixed deposit Rs.400.000

Required: The cash flows from the operating activities for the year ending 31.03.2021 under each of the following methods as per LKAS 7 (Statement of Cash Flows):

(1) Direct method
(2) Indirect method

The following information has been extracted from the financial statements of Nimali PLC prepared for the year ending 31.03.2021.

For the year ending 31.03.2021:	**Rs.'000**
Gross Profit	30 000
Operating expenses	12 000
Interest expenses	6 000
Tax expenses	3 000
As at 31.03.2021:	
Inventory	21 500
Debtors	17 500
Prepaid expenses	7 500
Cash	11 500
Long-term loan	54 000
Current liabilities	29 000

Additional information:

(i) The gross profit ratio of the company for the year ending 31.03.2021 was 25% and the current ratio as at 31.03.2021 was 2:1.
(ii) Inventory as at 31.03.2020 was Rs. 18 500 000.
(iii) All sales are carried on credit basis and the debtors balance as at 31.03.2020 was Rs. 22 500 000.
(iv) Stated ordinary share capital and reserves as at 31.03.2020 was Rs. 81 000 000
(v) The profit for the year is the only item that had contributed to the change in year-end equity.
(vi) Assume that the number of working days per annum as 360.

Required:
(1) Net profit ratio
(2) Quick assets ratio
(3) Debt collection period
(4) Inventory turnover ratio
(5) Debt-equity ratio

2022 A/l

- **Use the following information to answer questions no. 01 and 02**
  The following information relates to Savini PLC.

Capital Structure As at 31.03.2022:	**Rs.'000**
Equity	200 000
10% Bank Loan	150 000
For the year ending 31.03.2022:	

Sales	200 000
Profit before tax	15 000
Tax for the year	3 000
Average inventory	20 000

The company sells goods keeping a profit margin of 20% on the selling price. The 10% bank loan was obtained on 01.04.2021 and its balance remained unchanged during the year.

1. The interest cover ratio and the debt equity ratio:

	Interest Cover Ratio (Times)	Debt Equity Ratio
(1)	0.8	0.75
(2)	0.8	1.33
(3)	1.0	0.75
(4)	2.0	0.75
(5)	2.0	1.33

2. The return on equity ratio and inventory turnover ratio:

	Return on Equity Ratio (%)	Inventory Turnover Ratio (Times)
(1)	4.50	7.5
(2)	4.50	8.0
(3)	6.00	8.0
(4)	6.00	10.0
(5)	17.50	12.0

The following information has been extracted from the trial balance as at 31.03.2022 of a trading company

	Rs.'000
Debtors	4 500
Pre-paid expenses	500
Cash and cash equivalents	1 500
Current Liabilities	4 000
Sales	20 000

Additional Information:

- Inventory as at 31.03.2022 was Rs. 2 500 000.
- Debtors as at 01.04.2021 was Rs. 3 500 000.
- All sales are made on credit basis

Identify the following:

a) Quick assets ratio: ……………………………………………………….

b) Debt collection period: Days ……………………………………………………………….

The following information has been extracted from the financial statements of Nethmi PLC.

For the year ending 31.03.2022:	**Rs.'000**
Sales	9 000
Gross Profit	3 200
Operating expenses	1 200
Interest expenses	200
Income tax expenses for the year	450
Interim dividends paid to the ordinary shareholders	300
As at 31.03.2022:	
Inventory	1 100
Trade debtors	1 400
Stated capital- Ordinary shares (Number of shares-150 000)	3 000

Additional Information:

(i) All sales are done on credit basis.
(ii) Inventory as at 01.04.2021 was Rs. 900 000.
(iii) Trade debtors as at 01.04.2021 was 1 600 000.
(iv) A few selected ratios for year ending 31.03.2021 are as follows.

- Gross profit ratio 38%
- Net profit ratio 12.5%
- Inventory turnover ratio 6 times
- Debtors' turnover ratio 5.5 times
- Earnings per share Rs. 7.50
- Dividends per share Rs. 2.50

Required:

(1) The following ratios for the year ending 31.03.2022
  (i) Gross profit ratio
  (ii) Net profit ratio
  (iii) Inventory turnover ratio
  (iv) Debtors' turnover ratio
  (v) Earnings per share
  (vi) Dividends per share

(2) State whether the change in each of the ratios computed in (1) above is favorable or unfavorable by comparing with the previous year's ratios.

The following information has been extracted from the published Statements of Financial Position of Lahiru PLC as at 31.03.2022 and 31.03.2021.

	As at 31.03.2022(Rs.'000)	**As at 31.03.2021 (Rs.'000)**
Property, plant, and equipment carrying	275 000	245 000
Cash and cash equivalents	8 050	1 500
Stated capital- Ordinary shares	285 000	200 000
Revaluation reserve - Land and Buildings	13 500	8 000
Long-term bank loan	135 000	125 000

Income tax payable	6 500	7 250

Additional information:

(i) During the year ending 31.03.2022, cash collected from the customers was Rs. 245 000 000 and cash paid to the suppliers and employees was Rs. 235 000 000.

(ii) Depreciation and income tax expenses for the year ending 31.03.2022 were Rs. 35 000 000 and Rs. 15 000 000 respectively.

(iii) During the year ending 31.03.2022, the company paid a bank-loan installment of Rs. 35 000 000, which includes interest of Rs. 8 500 000. Further, a new loan was obtained on 31.03.2022.

(iv) The increase in the revaluation reserve represents the surplus arising from the revaluation of land and buildings on 31.03.2022 for the second time.

(v) A loss of Rs. 2500000 was incurred by selling a machine on 31.03.2022. This machine was purchased on 01.04.2020 for Rs. 20 000 000 and it was depreciated at 10% per annum on straight-line method.

(vi) The company purchased a motor vehicle on 31.03.2022 for cash.

(vii) The company capitalized Rs. 10 000 000 retained earnings on 01.10.2021. Further, the company made a public issue of shares on 01.01.2022 and collected cash during the month of January 2022 for all shares issued.

(viii) An interim dividend of Rs. 2 200 000 was paid to the ordinary shareholders during the year ending 31.03.2022.

Required:
Statement of Cash Flows of Lahiru PLC for the year ending 31.03.2022 as per 'LKAS 7 - Cash Flow Statement'

AKILA FERNANDO

PCM at (SLIM) / PGDip in Mkt Mgt.

Affiliate Member of ACCA

BSc. in Applied accounting (oxford Brookes university U.K.) UG

0776340075 (WhatsApp)