

Uva Wellassa University

Faculty of Management

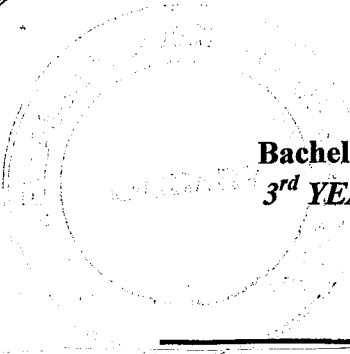
Bachelor of Business Management in Entrepreneurship and Management

3rd YEAR 1st SEMESTER EXAMINATION – FEBRUARY / MARCH 2011

EMG 303 - 2 FINANCIAL REPORTING AND ANALYSIS

Part B – Structured Questions

Part C – Essay Questions



Part C – Essay Questions

Answer only three (03) questions including question number 01.

01.

- a) Rakshana Insurance PLC is a limited liability company incorporated and domiciled in Sri Lanka and listed on the Colombo Stock Exchange. The principle activities of the company are carrying out all classes of Life Insurance, Non – Life Insurance business and insurance related services.

You are required to:

- i) List four (04) sources that affecting to the financial statements of the Rakshana Insurance PLC.

(04 marks)

Note: Your answer should be based on the financial reporting framework relating to insurance entities.

- ii) Outline any two (02) components to be identified under non – life insurance category.

(02 marks)

- iii) Give two (02) industry specific financial ratios in relation to the said insurance company.

(02 marks)

- iv) Briefly explain the term Solvency Margin – Life in relation to Rakshana Insurance PLC.

(02 marks)

- v) Identify the components of the financial statements in relation to said insurance entity in accordance with SLAS 03.

(05 marks)

- b) Following items extracted from financial statements of an insurance company for the year ended 31.12.2010.

- 1) The premium income for the year by major classes of business was as follows:

	(Rs. 000)
Life Insurance	
First Year Premium	504,000
Renewal Premium	926,000
Non – Life Insurance	
Fire	475,000
Motor	3,060,000
Marine	100,000
Miscellaneous	630,000



iii) Royalties

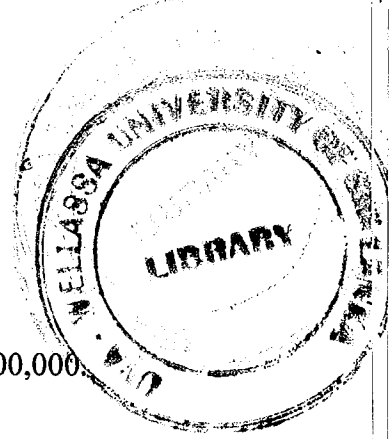
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b) State what are the conditions to be fulfilled in order to revenue recognition based on above items.

(03 marks)

(Total – 07 Marks)

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- 2) Premium ceded to Reinsurers was Rs. 592,000,000.
- 3) Net change in Reserve for Unearned Premium for the year was Rs. 144,000,000.
- 4) Other related information for the financial year as follows:

<i>Item</i>	<i>(Rs.000)</i>
Profit Commission	23,500
Dividend Income	1,300
Gain or (Loss) on Foreign Exchange Transactions	(1,200)
Late Fee Recovery	1,320
Net Realised Capital Gains	3,340
Interest on Policyholders and Other Loans	22,000
Policy Fees	120,000
Interest Income	700,000
Compulsory Social Security Contributions	41,344

You are required to:

Calculate followings:

- i) Gross Written Premium
- ii) Net Written Premium
- iii) Net Earned Premium
- iv) Total Revenue

Note: Show all the workings very clearly and assumptions should be stated (if any)
(15 marks)

(Total – 30 Marks)

02.

The companies authorised to carry on insurance business under the Control of Insurance Act, No.25 of 1962, has been defined as Specified Business Enterprises (SBEs) by the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the other relevant regulations have also been made under the particular Act.

You are required to:

- a) List any four (04) of other certain enterprises identified as SBEs in accordance with said Act.
(04 marks)
- b) Discuss the duties of SBEs as per the Act in relation to financial reporting and disclosures.
(06 marks)

(Total – 10 Marks)

03.

a) Following information extracted from Jayasetha PLC for the year ending 31.03.2010.

- 1) Profit attributable to ordinary equity holders for the financial year was Rs. 1,004,000
- 2) Ordinary shares outstanding as at 31.03.2010 were 1,000,000
- 3) Calculated basic earnings per share for the year Rs. 1,000
- 4) Convertible bonds outstanding the financial year were 100,000 and each block of 10 bonds in convertible into three ordinary shares.
- 5) Interest for the current year relating to the liability component of the convertible bonds was Rs. 10,000.
- 6) Current and deferred tax relating to that interest expense was Rs. 4,000.

You are required to:

Calculate diluted earnings per share as per SLAS 34.

Note: the interest expense includes amortisation of the discount arising on initial recognition of the liability component.

(04 marks)

b) State what you understand by international “**Harmonisation**” in financial reporting.

(02 marks)

c) The implementation of IFRS in the corporates would require trained accountants, auditors, valuers and actuaries. In spite of the various benefits of adopting IFRS, implementation of IFRS is a difficult task in Sri Lanka.

You are required to:

Discuss four (04) challenges may face during adaptation and implementation of IFRS.

(04 marks)

(Total – 10 Marks)

04. The income statements and balance sheets of two manufacturing companies are shown below:

Income Statements

	A PLC		B PLC	
	Rs.000	Rs.000	Rs.000	Rs.000
Sales		600,000		700,000
Cost of sales		(240,000)		(210,000)
Gross profit		360,000		490,000
Selling expenses	54,000		84,000	
Administrative expenses	60,000	(114,000)	35,000	(119,000)
Net profit		246,000		371,000
Taxation		(64,000)		(100,000)
Profit after taxation		182,000		271,000
Dividend		(80,000)		(110,000)
Retained profit b/fwd		102,000		161,000
		106,000		230,000
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		208,000		391,000
		=====		=====

Balance Sheets

	A PLC		B PLC	
	Rs.000	Rs.000	Rs.000	Rs.000
Assets				
Property, plant and equipment				
Property		-		500,000
Machinery		760,000		280,000
		760,000		780,000
Current assets				
Stock	48,000		26,000	
Debtors	150,000		105,000	
Bank	2,000	200,000	22,000	153,000
Total assets		960,000		933,000
		=====		=====
Capital and reserves				
Share capital	663,000		424,000	815,000
Profit and loss	208,000	871,000	391,000	
Current liabilities				
Creditors		89,000		118,000
		-----		-----
Total capital and liabilities		960,000		933,000
		=====		=====

You are required to:

Compare these two companies in terms of their profitability and solvency. Explain which company appears to be the better managed in respect of each of these matters. You should support your answer with ratios. Any assumptions should clearly be stated (If any).

(10 Marks)