



Uva Wellassa University

Faculty of Management

Degree of Bachelor of Business Management in Entrepreneurship and Management

3rd YEAR 1st SEMESTER EXAMINATION – FEBRUARY / MARCH 2012

EMG 303 - 2 Financial Reporting and Analysis



Part C – Essay Questions

- Answer three (03) questions including question number 01 in this part.
- Show your all workings very clearly.
- Marks allocated for Part C is fifty (50).

01. a) According to LKAS 01- Presentation of Financial Statements, what are the components of complete set of financial statements?

(05 marks)

b) Discuss the benefits of international “Harmanisation” on financial reporting.

(02 marks)

c) Following information has been extracted from the financial statements of BCA Insurance Company for the year ended 31.03 2011.

Description	(Rs.000)
Life Insurance	
First Year Premium	650,000
Renewal Premium	813,000
Non – Life Insurance	
Fire	235,000
Motor	2,504,250
Marine	112,500
Miscellaneous	326,750

Premium ceded to Reinsurers was Rs.4,750,000,000.

You are required to calculate;

- i) Gross Written Premium (GWP);
- ii) Net Written Premium (NWP).

(07 marks)

d) Explain the term “Solvency Margin – Life” according to the Insurance Industry Act No.43 of 2000.

e) Explain "why financial statements must be supplemented and supported by notes to the accounts."
(02 marks)

f) The list of information extracted from Safe Insurance PLC for the year ended 31.12.2011 as follows:

<i>Item</i>	<i>(Rs.000)</i>
Interest Bearing Borrowings	609,000
Other assets	743,500
Investments	5,600,000
Stated Capital	2,903,350
Property, Plant and Equipment	330,500
Insurance Provision – Life	3,270,000
Reinsurance Receivable	513,600
Insurance Provision – Non Life	1,250,500
Cash in Hand and Balance at Bank	845,000

You are required to prepare:

The balance sheet as at 31.12.2011 in relation to Safe Insurance PLC.

(12 marks)

(Total – 30 Marks)

02. Discuss the financial reporting aspects of corporate governance.

(10 Marks)

03. a)

Outline separately the criteria that need to be satisfied in order to recognise revenue from sale of goods and revenue from the rendering of services as per LKAS 18 – Revenue.

(05 marks)

b)

According to the SLFRS 4 – Insurance Contracts, an insurer shall disclose information that identifies and explains the amounts in its financial statements arising from insurance contracts.

You are required to;

Explain the disclosure requirements of an insurer to comply with above explanation.

(05 marks)

(Total – 10 Marks)

04. Chamara PLC is a large retailer which sells electrical goods to the public. Every year the board obtains copies of the financial statements of their two main competitors: Binara PLC and Amara PLC. The board directors of Chamara PLC try to obtain insights into their competitors' business practices so that they can improve their own performance.

The summarized financial statements of the three companies are shown below:

Income statements for the year ended 31.12.2011:

	Chamara PLC (Rs.000)	Binara PLC (Rs.000)	Amara PLC (Rs.000)
Sales	5,000	4,000	11,000
Cost of goods sold	(1,500)	(2,000)	(2,750)
Advertising	(400)	(480)	(880)
Sales staff	(350)	(400)	(880)
Other expenses	(600)	(160)	(1,430)
Net profit	<u>2,150</u>	<u>960</u>	<u>- 5,060</u>



Balance sheets as at 31.12.2011

	Chamara PLC (Rs.000)	Binara PLC (Rs.000)	Amara PLC (Rs.000)
Property, Plant and Equipments	5,000	1,300	8,000
Current assets			
Stock	123	99	286
Bank	<u>10</u>	<u>3</u>	<u>17</u>
	133	102	303
Current liabilities			
Creditors	<u>(115)</u>	<u>(82)</u>	<u>(286)</u>
Net current assets	18	20	17
Total assets less liabilities	<u>5,018</u>	<u>1,320</u>	<u>8,017</u>
Stated capital and reserves	<u>5,018</u>	<u>1,320</u>	<u>8,017</u>

You are required to:

Discuss the main differences between Chamara PLC's business practices and those of Binara PLC and Amara PLC. Support your answer using relevant ratios.

(10 Marks)