THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA

KC1 – Corporate Financial Reporting

December 2019

Answer 01

Relevant Learning Outcomes/s: 1.1, 5.1
Study text reference: Page 287-292, 297-329, 13-18

(a) Identifying each promise in the contract as a separate performance obligation affects both when and how much revenue should be recognized.

A performance obligation is a promise to transfer to the customer either;

- A good or service (or bundle of goods or services) that is distinct or
- A series of distinct goods or services that are substantially the same and that have the same pattern of transfer, to the customer.

A good or service that is promised to a customer is distinct if both of the following criteria are met.

- The customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer; and
- The entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract

Accordingly the following can be identified as separate performance obligations.

- Wifi router (the company sells the routers separately, the customer can use it with other resources)

- Voice and data – a bundle of services and the bundle can be considered as one PO. (This is because the service is not distinct within the context of the contract, (para 27), their objective per the nature of the promise, being to transfer the service, as a combination (bundle of services).

The option to acquire extra data and voice at a price that *reflect standalone selling price* does not provide the customer a material right and therefore is not a separate PO (para B 41)

Connection fee is not a separate PO, it is an advance payment for future telecommunication services. (B48-B51)

In deciding the amount to be recognized as revenue, transaction price should be allocated to each PO in an amount that depicts the amount of consideration to which the entity expects to be entitled to in exchange for transferring the promised goods or services to the customer. (Para 73)

To meet the allocation objective, transaction price should be allocated to each PO on a relative standalone selling price basis. Accordingly,

Standalone selling price of WiFi router	Rs. 3,000
Standalone selling price of services (5,000*24)	Rs. 120,000
Total	Rs. 123,000
Transaction price of the contract	Rs. 120,000

Allocation;

For wifi router (3000/123000*120,000)	Rs. 2,927
For telecom services (120000/123000*120,000)	Rs. 117,073
	Rs. 4,878 per month

Revenue to be recognized for 2018/2019;
Revenue for the router should be immediately recognized as it is delivered to the customer.

Revenue from providing data and voice services should be recognized monthly (Rs. 4,878 per month). For the year Rs. 58,536/-

Extra usage does not amount to a separate PO and therefore, revenue to be recognized as and when services are used by the customer.

Revenue for the year from extra data (5GB*.20*1000) = Rs. 1,000
Revenue from extra voice minutes (400*2) Rs. 8,00

Connection fee should be deferred and amortised over the contract period as it is relevant for future services

For 2018/2019 – (1000/2) = Rs. 500

(b) As per LKAS 12, a deferred tax asset shall be recognized for the carryforward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized.

Existence of unused tax losses is strong evidence that future taxable profit may not be available.

Therefore, when an entity has recent tax losses, the entity recognizes a deferred tax asset for unused tax losses only to the extent of availability of taxable temporary differences or when there is convincing other evidence that sufficient taxable profit will be available to be utilized to carryforward tax losses.

DPL's forecast shows a very high growth in taxable profits, assuming its entering into new markets. However, DPL has not yet formulated strategies to address competitiveness of such new markets. Further, actual historical results do not show a growth in profits. Instead the profits have declined. Accordingly, it is not clear how DPL will meet the budget and it is uncertain that DPL will have taxable profits to utilize tax losses carried forward, before they expire as per the new tax law.

Further there are no tax planning opportunities available to DPL that will create taxable profits in the near future

Accordingly, recognizing a deferred tax asset on tax losses carried forward as at 31 March 2019, without convincing evidence of future taxable profits is not appropriate

The company has taxable losses while it has recorded profits for accounting purposes. This could be due to claiming significant amounts as capital allowances for tax purposes. This would suggest that there will be taxable temporary differences resulting from depreciation. If so the deferred tax asset should be limited to such taxable temporary difference

(c) You are a chartered accountant and as such bound by the CASL Code of Ethics. If you were to accept the CFO's and CEO's suggestion not to enquire about suspected journal entries or to delay the internal audit work, you would breach following ethical principles

Integrity - being honest in your professional conduct

Objectivity – requirement that a professional accountant should not allow bias, conflict of interest or the influence of others to override their professional judgment

You must comply with the requirements that an internal auditor should follow in such an instance. It is your responsibility to investigate the journal entries without adequate supporting explanations since it appears that the required internal controls have not been followed in passing such JEs.

You would face intimidation threat. Therefore, the following safeguards should be set in place.

You need to explain to the CFO and CEO that not following internal controls could even result in fraud and such JEs might have an impact on the financial statements causing them to be misleading and not in compliance with the financial reporting standards. Since CFO is also a chartered accountant you will need to remind him about his ethical responsibility.

You need to bring this matter to the audit committee immediately and should not stop investigating. If the audit committee does not act upon if you are required to be bring it to the attention of the Board.

Failing this, you need to obtain advice from CASL. If this issue cannot be resolved, you should consider resigning from the job.

(Total: 25 marks)

Answer 02

Relevant Learning Outcomes/s; 1.1, 4.1
Study text reference: 334-338, 370, 42-46

(a) The company is currently facing of serious loss of capital and is therefore required to improve the equity of the company.

Option 1

A Participative Unit is a puttable financial instrument since it gives an <u>option to the unit holder to redeem the unit after 5 years from the date</u> of issue.

An instrument can be classified as an equity instrument if, and only if, both conditions (a) and (b) of paragraph 16 of LKAS 32 are met. However, there is an exception to these paragraphs i.e. paragraph 16A and 16B of LKAS 32. Since the terms and conditions of these participative units satisfy the conditions which must be met to classify as equity given in paragraph 16A and 16B of LKAS 32, these participative units can be classified as equity.

Accordingly, funds collected by issuing participative units is required to be presented as part of equity of the company in the statement of financial position.

As these instruments are classified as equity, any discretionary distribution of these units should also be adjusted via equity**.**

Option 2

Hope PLC has to pay an annual cash coupon and may be required to repay its face value at the end of five years if the bond holder chooses not to exercise the conversion option. Therefore, there is a contractual obligation to pay cash that Hope PLC cannot avoid, which is a financial liability feature.

The bond contains an option to be converted into ordinary shares. Conversion terms that allow the bond holder to convert a bond into the number of ordinary shares equal, to the face value of the bond/market price of an ordinary share of the company if on the date of conversion. As the number of ordinary shares to be issued to extinguish a fixed liability amount, will vary depending on the market price of an ordinary share on the date of conversion, the aforesaid condition fails the 'fixed-for-fixed' test. Accordingly, the conversion feature does not meet the equity classification requirement.

Such a conversion feature is a derivative liability but, as the conversion price is set at the market price at conversion date, the derivative liability has no value.

Therefore, the entire proceeds should be classified under financial liabilities**.**

Coupon payments are mandatory, and will therefore be finance expenses to the company. However, these coupon payments will result in a tax saving

Recommendation:
Under option I dividend payment will be made at the discretion of the company and the amount of the dividend can be decided upon by the company, which creates a lower burden over the equity base of the company

Accordingly, to resolve the current situation of serious loss of capital to strengthen the equity base of the company and to repay a part of high cost borrowings, the best option will be the option 1**.**

(b)

Period	Beginning Gross carrying value	Interest revenue	Cash Flow	ending Carrying value	Impairment	Ending Carrying value net of impairment
1 Jan 2019 - 31 Dec 2019	100	8.00	-8	100.00	1.30	98.70

This is an investment in debt instruments measured at fair value through other comprehensive income.

The decrease in fair value of the bond is due to a change in market interest rate. HP has determined that there has not been a significant increase in credit risk since initial recognition of the bonds. Therefore, expected Credit Loss should be measured at an amount equal to 12 months expected credit loss**.**

As this is a debt instrument measured at fair value through other comprehensive income, impairment losses and interest are required to be recognized in the P/L. Fair value changes of the instrument should be reflected in OCI.

Accordingly, cumulative loss in OCI as at 31 Dec 2019 should be Rs.3.7 million (i.e. total fair value change of Rs.5 million (Rs.95 million - Rs.100 million) less the accumulated impairment provision of Rs. 1.3 million.

Impairment loss of Rs. 1.3 million and interest income of Rs. 8 million required to be recognized in P/L
Fair value of Rs.95 million should be reflected in the Statement of Financial position

(ii) This is an investment in equity instruments which are designated as an investment measured at fair value through other compressive income at the initial recognition.

Accordingly, fair value changes are required to be recognized in OCI.

Even though HP concludes that the decline in investment value is significant and prolonged no specific impairment test is required to determine an allowance for impairment as the investment is reflected at fair value, and impairment losses are not recycled to P/L

Accordingly,

Initial cost of the investment			Rs. 60,000,000
Carrying amount as at 31 Dec 2018	6,000,000	@ 7.50/-	Rs. 45,000,000
Estimated Carrying amount as at 31 Dec 2019 to be reflected in Statement of financial position	6,000,000	@ 3.80/-	Rs. 22,800,000
Fair value change for the year ended 31 Dec 2019 (22,800,000-45,000,000) To be charged to OCI for the year ended 31 Dec 2019			Rs. (22,200,000)
Cumulative fair value change reflected in reserve (22,800,000-60,000,000)			Rs. (37,200,000)

(c) As per paragraph D.1.7 in the event the Net Assets of the company fall below 50% of the value of the company's shareholder's funds **the directors shall forthwith summon an EGM to notify shareholders of the position** and of remedial actions being taken. The directors should periodically report to the shareholders the progress being made regarding remedial actions**.**

Further, as per paragraph D.1.4., in the director's report the **directors should declare that, the business is a going concern** with supporting assumptions or qualifications as necessary.

Accordingly, Director's request the Finance Director of HP to negotiate with the external auditors to **postpone any possible** adjustment that can arise from the scenarios given in (b) as such an adjustment will shift the company again into a situation of serious loss of capital. This **is not in accordance with the board and directors responsibilities explained in corporate governance** and the **director will not be able to make a genuine statement** in the annual report as required by D.1.4.

Further, Mr. Thilak tries to hide the real situation of the company by **providing false** information which is in **violation of board's responsibilities** of ensuring an effective system to secure integrity of information, internal controls, business continuity and risk management, 'ensuring compliance with laws, regulations and ethical standards, ensuring that the company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations. (para A.1.2.)

This responsibility further explains in

D.1 the Board should present a balanced and understandable assessment of the company's financial position, performance, business model, governance structure, risk management, internal controls and challenges, opportunities and prospects.

D 1.1. The Board should also present an Annual Report including Financial Statements that are true and fair, balanced and understandable and prepared in accordance with the relevant laws and regulations any deviations being clearly explained.

The Board should , before it approves the company's financial statements for a stated financial period, obtain from its CEO and CFO, a declaration that, in their opinion , the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the company and that the system of internal controls and risk management were operating effectively.

D. 1.5 The annual report should contain a statement setting out the responsibilities of the Board regarding the preparation and presentation of financial statements, together with a statement by auditors.

Also, **postpone such adjustments** which are required based on the accounting standards which **will impact on the responsibilities of the audit committee**.

D 3.2 The duty of the audit committee also includes ensuring compliance with financial reporting requirements and regulatory reporting.

Maintains accurate accounting and record keeping should be a key aspect included in the code of business conduct of the company as per paragraph D.5.1. of the code of corporate governance. Accordingly, the **said proposal violates aspects of the code of business conduct of the company**.

Answer 03

Relevant Learning Outcomes/s; 2.1, 2.3,1.1,3.1
Study text references: 570-589, 502-508, 728-750

(a) How the disposal should be reflected in the Consolidated Financial Statements of UEL for the year ended 31 March 2019

With the disposal of 50% in BPL, UEL's holding come down to 30%. With this % of holding UEL can appoint 1 director to the BPL's Board.

UEL loses control over BPL with the disposal as with a remaining 30% UEL can exercise significant influence over BPL as it can appoint 1 director out of 4, to the board of BPL. However BPL now becomes an associate_of UEL and should be accounted under equity method. As per SLFRS 10 para 25,

- UEL requires to derecognize;
  - the assets (including goodwill of Rs. 23 million) and liabilities of BPL at their carrying amounts at the date when the control is lost (i.e. 30 Sep 2019)

  - The carrying amount of any NCI in BPL at the date when control is lost
    Carrying amount as at 31 March 2019 – Rs. 70 mn
    Share of subsequent profits Rs. 7.084 mn
    (Rs. 35,420*20%)
    Carrying value as at 30 Sep 2019 Rs. 77.084mn

- UEL requires to recognize;
  - Remaining 30% at fair value as at 30 Sep 2019 (i.e. when the control lost) which is Rs. 107 mn in the consolidated financial statements.

  - Recognize gain/loss from loss of control attributable to the former controlling interest.
  - Recognize the interest income on contingent consideration

		Rs. '000
FV of the consideration received		
Cash		200,000
Contingent consideration		
Year 1 (15mn/1.12)	13,393	
Year 2 (10mn/1.12^2)	7,972	
Year 3 (8mn/1.12^3)	5,694	27,059
		227,059
FV of 30% retained		107,000
		334,059
Less:		
Net assets of BPB as at 31/03/2019	315,300	
Profit for the 9 months	35,420	
Goodwill	23,000	
NIC at disposal	77,084	296,636
Gain on disposal		37,423

- UEL should consolidate results of BPL up to 30 Sep 2019

  Disclosures that are required to be made in the consolidated financial statements for the year ended 31 March 2020

SLFRS 12

The portion of the gain attributable to 30% retained at the date when control is lost.

FV of 30% retained	Rs. 107 mn
CV (30%*(315.3mn+35.42mn))	Rs. 105.216mn
Gain	Rs. 1.784mn

The line item in profit or loss in which the gain or loss is recognized (if not presented separately) to be disclosed.

SLFRS 05

This subsidiary can be identified as a discontinued operation under SLFRS 5. SLFRS 5 requires to disclose;

- A single amount in the statement of comprehensive income comprising the total of
  - o Post tax profit/loss of discontinued operation (i.e. Rs. 35.4mn) and
  - o Post tax gain or loss recognized on the disposal of the disposal group (i.e. Rs. 37.4 mn)

  Accordingly, Profit for the year from discontinued operation is Rs. 72.8 mn and need to be presented in the SOCI.

- An analysis of the single amount – this can be presented in the notes

	Rs.000
Revenue	332,100
Cost of Sales	(265,680)
Gross profit	66,420
Administration expenses	(23,100)
Distribution Expenses	(4,300)
Finance Cost	(1,200)
Profit before taxation	37,820
Taxation	(2,400)
Profit after tax	**35,420**

  Gain from disposal of the subsidiary – Rs. 37.4 mn
  (related income tax expenses also should be disclosed)

- The net cash flow from operating, investing and financing activities should be disclosed
- The amount of income from discontinued operation attributable to owner of the parent (35,420,000*80%+37,423,000 = 65,759,000)
- Comparative amounts in the income statement of discontinued operations need to be presented.

- summarized financial information about the associate should be disclosed
- any other disclosure on SLFRS 12 on associate should also be disclosed.

LKAS 07

- The total consideration paid or received.
- The portion of the consideration consisting of cash and cash equivalents.
- The amount of cash and cash equivalents in the subsidiaries or other businesses over which control is obtained or lost.
- The amount of the assets and liabilities other than cash or cash equivalents in the disposed subsidiary by classifying each major category

(b) Evaluation of the rights

i. Right to approve capital expenditure is a protective right granted to UEL as it is beyond the activities in the ordinary course of the business (relating to exceptional circumstances). This right does not give any power to UEL over BPL. Therefore exercise of this right will not change any accounting by UEL subsequent to disposal of 50%.

ii. As the call options are exercisable at fair value, they are neither in nor out of the money. So the exercise price does not create financial barriers to exercise the options. If exercised UEL will get the voting rights of 50% which will give UEL the power to control BPL. However, as information relevant to exercise the rights is to be obtained from a third party, in practical terms UEL may not be able to get such information as giving the information amounts to transfer of control. So it creates a barrier to exercising the options. In that case these options are not substantive to give UEL power over BPL, and there will not be any change to the accounting for disposal. However, it is required that all available information is evaluated, to ascertain if there is practical ability to exercise the options.

(c) Under SLFRS 16, Lessees are required to initially recognise a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset during the lease term.

The lease liability is measured at present value of the lease payments to be made over the lease term.

The right-of-use asset is initially measured at the amount of the lease liability, adjusted for lease prepayments, lease incentives received, the lessee's initial direct costs (e.g., commissions) and an estimate of restoration, removal and dismantling costs.

Lessees accounts create the lease liability to reflect the interest component and reduce the liability to reflect lease payments made. The related right-of-use asset is depreciated in accordance with the depreciation requirements of LKAS 16 Property, Plant and Equipment.

UEL has already accounted for the leasehold right to the bare land and for the lease liability. Assuming that the liability had been measured at present value of the lease payments, there will not be any change to the present accounting.

(d)

Profitability Ratios	**2019**	**2018**	**2017**
Return on Capital Employed (ROCE)	9%	12%	13%
Gross profit margin	19%	20%	22%
PBIT margin	17%	20%	21%
Net profit margin (before tax)	5%	6%	12%

Profitability

All profitability ratios show a decreasing trend over the last two years. The decreasing ROE indicates that the Shareholders' funds have not been utilized to make profits over the last two years.

All other profitability ratios of UEL have decreased over the last two years mainly due to the effects of decreasing revenue by 3%, the decreases in fair value gains by 38% in 2019 compared to 2018 and the increase in admin costs by 5% compared with the previous year. However, the, Impact of the said decrease on PBIT and NP was slightly lowered due to the benefit of reduction in COP and Finance cost in 2019 compared to 2018. Net finance cost has increased by 58% in 2018 and by 36% in 2019 when compared with the net finance cost of FY 2017 which are resulted in a significant decrease in profitability over the three year period.

UEL's revenue represents 80% from tea sales and 20% from rubber sales during the year. They have 7 tea estates and 2 rubber estates. Even though, the tea segment recorded an increase in sales compared with the previous year, overall revenue decreased due to the significant decrease in the rubber segment.

When compared with 2018, UEL's rubber production had decreased by 14% and average selling prices had decreased by 15%. As a result, revenues from rubber production had decreased by 30% compared with the previous year. This was due to adverse weather condition and employee strikes which had taken place during the year.

UEL's revenue from Tea sales had increased by 8% compared with the previous year. During the year 2018, overall tea production (Kg) had increased by 12% compared with the previous year. However, the benefit gained from the increased volume had been eroded by the decline in the NSA of the Tea, and as such overall growth was limited to 8%.

Overall cost of productions of the company had decreased by 1% as the cost of production of Tea had decreased by Rs. 5/- compared with the last year. Accordingly, UEL had saved Rs. 36 of cost from tea production. However, the COP of rubber had increased by Rs. 20/- and accordingly the overall reduction in cost of production was limited to 1%.

UEL has been able to reduce its bank overdrafts significantly by 42% compared with last year resulting in a reduction in Finance Costs if 15% compared with the prior year. (Page 08 preseen)

Due to the reasons mentioned above, the NP margin, PBIT margin and GP margin have decreased over the last three years UELs equity and net assets have increased approximately by 4% and 12% respectively which resulted in the decrease in ROCE as there was in adequate profit growth resulting from the increased asset base.

However, UEL had performed well in the Tea segment compared to the overall tea market in Sri Lanka. Overall tea production and revenues had fluctuated over the current period and special sales also declined. The Tea market had faced several difficulties due to government policies and weather conditions that prevailed in the country (Page 12/13).

Therefore, UELs profitability continues to indicate a negative trend. The following measures could be taken by a potential investor to improve or manage UEL's profitability in ensuing years.

- Negotiations with employee unions to mitigate strikes which was essential for increased rubber production and utilising employees efficiently.

- Interest cost of Bank Overdraft is too high. Accordingly, UEL may dispose part of financial assets to repay the bank overdrafts.
- Introduce/ Consult with plantation professionals to identify the reasons for the lessor FV gain and the address the agriculture related issues (only MD has the plantation experience).
- Improve productivity of Estate 05 as this estate had more Hectares but a factory which had limited capacities compared with the other estates.
- Buy back Gayan’s 30% stake using the General Reserve. UEL may use related party receivables balances to process this.
- Limit directors drawings and repay the bank OD or charge interest on Directors drawings
- Sale of idle assets to avoid depreciation and also use the proceeds for settlement of borrowings
- Analyze operational expenses and control unnecessary expenditure.
- As the global tea market is growing, there is a possibility of capturing new markets and increasing sales.
- Use of new technology to reduce staff and so reduce direct and indirect staff cost as well as possible losses due to strikes

Solvency

Ratios	2019	2018	2017
Debt Ratio	49%	52%	57%

The debt ratio measures the extent of a company's leverage and UELs leverage has improved over the years. The ratio indicates that 49% of the total assets of UEL were funded through interest-bearing borrowings. UEL was less reliant on debt finance in 2019, Borrowings had decreased by 10% compared with last year and total assets had increased only by 4% and resulting in an improvement to the debt ratio. A significant decrease in current liabilities (35%) led by decrease in OD and Payables, resulted in a decrease in total debt over the last two years.

Increasing leverage could create solvency issues in UEL as the company does not appear able to meet its borrowing obligations. It is difficult to set a benchmark for this ratio as it depends on the nature of the industry. However, indication of the existence of lesser debtors (total debtors equals to 7% of revenue) indicates that UEL receives regular cash inflows from their sales. As such UEL may not face significant financial difficulties in the short term and may focus on obtaining debt finance for future expansion projects such as Hydropower.

Based on the current financial position of UEL the following steps could be taken to improve its gearing.

- Revaluation of tangible assets and investment properties which are carried at cost
- Use of potential proceeds from share buyback/disposal of subsidiary to repay the interest-bearing borrowings.
- Reduce working capital. This may be achieved by negotiating a longer credit period when paying accounts payable (it has reduced by 57 days compared to 2018) which in turn would produce cash flows to pay down interest bearing debt.
- Increase profitability (refer above) and use the cash inflows to repay the interest bearing debt
- Limit chairman’s drawings and RPT lending and use such amounts to repay debts.
- Consider the potential conversion of RPT payables in to equity.

Liquidity Ratios

Ratios	2019	2018	2017
Current Ratio	0.91 : 1	0.76 : 1	0.72 : 1
Quick Ratio	0.71 : 1	0.64 : 1	0.61 : 1

These ratios show whether current assets or liquid assets used in calculating the quick ratio are sufficient to meet future commitments to pay off current liabilities. Based on these ratios, it appears that UEL has improved its short-term liquidity position over the last two years. Generally, a ratio of less than 1 indicates a liquidity problem but based on UELs nature of operations, they may not face such difficulties as they have regular cash inflows from sales and a very short collection period.

Improvement in current ratio and the quick ratio resulted from reducing the current liabilities over the prior years. Even though, UELs current assets had decreased by 23% compared to the previous year, its current liabilities had decreased from 35% and which resulted in improving these ratios. There is no significant impact on inventories as they has remained almost the same in each year.

Considering the current financial structure of UEL, management may take the following actions to further improve these ratios.

- Sale of non-current financial assets as this seem to be generating less income and use the proceeds to repay bank overdraft
- Structuring related party transactions to match the working capital cycle.
- Negotiation with banks to extend the repayment periods of loans.
- Considering the potential conversion of RPT payables in to equity or non-current liabilities.

Efficiency Ratios

Ratios	2019	2018	2017
Accounts receivable collection period (days)	25	20	18
Accounts payable payment period (days)	80	137	78
Inventory turnover period (days)	51	50	46

Efficiency ratios are used to calculate a company's operating cycle which were 5 days, 66 days and 14 days respectively in 2019, 2018 and 2017.
The operating cycle indicates the levels of financing that a company requires, as it gives the average number of days that a company is 'out of pocket' from the day on which it paid its supplier until the day on which its customer pays the company.

Currently UEL has sound efficiency ratios as they have been able to turnover their inventory quickly and collect the receivables quickly. They are therefore not facing significant cash difficulties, also partly insulated by the nature of the business, where they can recover debts easily.

However, the debtor collection period and payables payment period have been highly volatile over the last two years but the inventory holding period has remained less volatile. The collection period showed negative trend compared to prior years as it is increasing. This may be due to the lowered enthusiasm of sales director Gayan, who did not have enough industry experience. Apart from that the decrease in revenue growth might have had an impact on the increase in the collection days.

Payables payment period reduced by 57 days compared to the prior year days. As the company is engaged in agricultural sector, these payables might relate to worker payments and chemical purchases. The volatility may also be caused by issues in 2018 and may not represent poor financial management. Cost of sales had not significantly changed compared to the previous year, as they had been able to reduce the tea production cost. The payables had decreased by 35% as UEL take steps to reduce the payment period by 57 days.

If UEL aims to improve efficiency ratios and reduce its operating cycle, this could be achieved by,

- Reducing the amount of time, it holds inventory, by limiting consumables, or production as soon as export orders are received.
- Follow-up of debtors or financing arrangement with banks to collect the export proceeds sooner.
- Negotiating increased terms with suppliers / or using the full terms offered by suppliers.

Investor Ratios

Ratios	2019	2018	2017
EPS (Rs.)	4	4.6	10.9

EPS shows how much money the company makes for each share of UEL. A higher EPS indicates more value to investors. Value created to the investors I.e. the EPS shows a decreasing trend over the last two years as UEL's profits decreased over this period due to reasons mentioned under the profitability analysis. Further UELs number of shares had increased by 50% compared to the FY 2017 which resulted in a higher EPS in 2017. Also, the earnings had decreased by 58% compared to the earnings in FY 2017.

UEL may take following measures to improve its EPS in ensuing years,

- Buy back Gayan's stake of 30% shares to reduce the number of shares
- Increase its profitability as suggested under profitability analysis

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