



(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2020/2021 ACADEMIC YEAR

THIRD YEAR FIRST SEMESTER

MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: BCF 321

COURSE TITLE: FINANCIAL STATEMENTS ANALYSIS

DATE: 5TH OCTOBER 2021

TIME: 9.00AM - 11.00AM

INSTRUCTIONS TO CANDIDATES

Answer Question One in Section A and Any other TWO (2) Questions in Section B

TIME: 2 Hours

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 3 Printed Pages. Please Turn Over.

ANSWER QUESTION ONE PLUS ANY OTHER TWO QUESTIONS

QUESTION ONE [30 MARKS]

- a. Identify and describe any five Internal and any five External parties with special and vested interests and concerns in the organization's end of year financial results (10 Marks)
- b. List and explain any ten top attributes of the statement of financial position, income statement, statement of retained earnings, statement of cash flows and statement of the company's financial policy which are recommended by GAAP, IFRS and FASB (10Marks)
- c. Mention and discuss any ten reasons, purposes and benefits of analysis of financial statements using financial and accounting ratios (10 Marks)

QUESTION TWO [20 MARKS]

The following information was extracted from the books of Kibabii Ltd, a company that started trading one year ago.

Month	Sales	purchases
2016	Sh	Sh
April	150,000	100,000
May	160,000	110,000
June	160,000	90,000
July	170,000	90,000
August	200,000	80,000
September	200,000	130,000
October	180,000	140,000
November	180,000	60,000

December

200,000

60,000

The following additional information is available

- a. Cash in hand at the end of May 2016 will be sh.180,000
- b. 60% of the sales proceeds are received in the current month, 30% in the following month and the balance is received two months after sales,
- c. Suppliers are paid one month after delivery of goods ,
- d. Corporation tax for 2015 amounting to sh.20,000 will be paid on 30 September 2016,
- e. Contractors retention monies amounting to sh. 50,000 will be paid on 30 June 2016,
- f. The shareholders at their last Extraordinary General meeting increased the share capital by sh. 70,000 and the first call of sh.40,000 will be received in October 2016,
- g. In October 2016, the company is due to receive sh. 20,000 as compensation for a civil suit ,
- h. The monthly administration expenses amounting to sh33, 000 include factory depreciation charges of sh.4, 000 and preliminary expenses of sh.3, 000.
- i. Office equipments worth sh 13,000 will be paid for in November, 2016.

Required:

Prepare a cash budget for the period 1 June to 31 December 2016 [20 marks]

QUESTION THREE [20 MARKS]

- a. Describe the Vertical Analysis of Financial Statements (4 Marks)
- b. The following information relates to the Income Statement and Statement of Financial Position of XYZ Company Ltd for the year 2020

	\$ Totals
Sales	\$1,000,000
Cost of goods sold	<u>400,000</u>

Gross margin	600,000
Salaries and wages	250,000
Office rent	50,000
Supplies	10,000
Utilities	20,000
Other expenses	90,000
Total expenses	<u>420,000</u>
Net profit	<u>180,000</u>

Statement of Financial Position

	\$ Totals
Cash	\$100,000
Accounts receivable	350,000
Inventory	<u>150,000</u>
Total current assets	600,000
Fixed assets	<u>400,000</u>

Total assets	\$1,000,000
Accounts payable	\$180,000
Accrued liabilities	<u>70,000</u>
Total current liabilities	250,000
Notes payable	<u>300,000</u>
Total liabilities	550,000
Capital stock	200,000
Retained earnings	<u>250,000</u>
Total equity	450,000
Total liabilities and equity	\$1,000,000

Required:-

Use common size analysis approach and carry out the analysis of this company (16 Marks)

QUESTION FOUR [20 MARKS]

The following information relates to **FATUMAKI COMPANY LIMITED** for the year of income 2020

FATUMAKI COMPANY LIMITED

COMPREHENSIVE INCOME STATEMENT

FOR THE YEAR ENDING 31.12.2020

	SH	SH
Sales		850,000,000
Less: Cost Of Goods Sold		
Opening Inventory	99,500,000	
Purchases	559,500,00	
Cost of Goods available for Sales	659,000,000	
Less: Closing Inventory	(149,000,000)	<u>(510,000,000)</u>
Gross Profit		340,000,000
Less Expenses		
Selling and administration	30,000,000	
Depreciation	10,000,000	
Distribution expenses	<u>35,000,000</u>	<u>(175,000,000)</u>
EBIT		165,000,000
Interest		<u>15,000,000</u>
EBT		150,000,000
Tax@0.5		75,000,000
EAT		75,000,000

Less Ordinary dividends(0.75/share)		15,000,000
Retained Earnings		60,000,000

FATUMAKI COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 31.12.2020

		SH	SH
Non Current Assets			
Land & Buildings			250,000,000
Plant, Equipment & Machinery			80,000,000
Total Non Current Assets			330,000,000
Current Assets			
Inventory		149,000,000	
Receivables	75,000,000		
Less Provision	(4,000,000)	71,000,000	
Cash		<u>30,000,000</u>	
Total Current Assets			250,000,000
Total Assets			580,000,000

Capital & Liabilities			
Issued Share Capital (200,000 Shares @ sh. 10 each)			200,000,00
General Reserve			90,000,000
Retained Profit			60,000,000
Long Term Debt			100,000,000
Current Liabilities			130,000,000
Total Capital & Liabilities			580,000,000

Required:-

Calculate and interpret the following ratios;

1. Current Ratio (2 Marks)
2. Cash Ratio (2 Marks)
3. Debt Ratio (2 Marks)
4. Debt to Equity Ratio (2 Marks)
5. Debtors' Turnover Ratio (2 Marks)
6. Fixed Assets Turnover Ratio (2Marks)
7. Net Profit Margin (2 Marks)
8. Return on Equity (2 Marks)
9. Earnings per Share (2 Marks)

10. Earnings Yield

(2 Marks)

QUESTION FIVE [20 MARKS]

a. Explain Horizontal Financial Analysis

(4 Marks)

b. The following information relates to Kitenato Company Limited for the years of income 2007 and 2008 Comparative balance sheet with horizontal analysis:

Comparative Balance Sheet
December 31, 2008 and 2007

	2008 (\$)	2007 (\$)	Increase or (Decrease)	
			Amount	Percent
<u>Assets</u>				
Current assets	550,000	533,000	17,000*	3.2%
Long-term investments	95,000	177,500	(82,500)	(46.5)%
Plant assets (net)	444,500	470,000	(25,500)	(5.4)%
Intangible assets	50,000	50,000	--	
Total assets	1,139,500	1,230,500	(91,000)	(7.4)%
<u>Liabilities</u>				
Current liabilities	210,000	243,000	(33,000)	(13.6)%
Long-term liabilities	100,000	200,000	(100,000)	(50.0)%
Total liabilities	310,000	443,000	(133,000)	(30.0)%
<u>Stockholders' Equity:</u>				
Preferred 6% stock, \$100 par	150,000	150,000	--	--
Common stock, \$10 par	500,000	500,000	--	--
Retained earnings	179,500	137,500	42,000	30.5%
Total stockholders' equity	829,500	787,500	42,000	5.3%
Total liabilities and stockholders' equity	1,139,500	1,230,500	(91,000)	(7.4)%

* $550,000 - 533,000 = 17,000$
 $(17,000 / 533,000) \times 100 = 3.2\%$

Comparative schedule of current assets

**Comparative Schedule of Current Assets
December 31, 2008 and 2007**

	2008 (\$)	2007 (\$)	Increase or (Decrease)	
			Amount	Percent
Cash	90,500	64,700	25,800	39.9%
Marketable securities	75,000	60,000	15,000	25.0%
Accounts receivables (net)	115,400	120,000	(5,000)	(4.2)%
Merchandise inventory	264,000	283,000	(19,000)	(6.7)%
Prepaid expenses	5,500	5,300	200	3.8%
	<u>550,000</u>	<u>533,000</u>	<u>17,000</u>	<u>3.2%</u>

Comparative income statement with horizontal analysis

**Comparative Income Statement
For Years Ended 31, 2008 and 2007**

	2008 (\$)	2007 (\$)	Increase or Decrease	
			Amount	Percent
Sales	1,498,000	1,200,000	298,000	24.8%
Cost of goods sold	1,043,000	820,000	223,000	27.2%
Gross profit	<u>455,000</u>	<u>380,000</u>	<u>75,000</u>	<u>19.7%</u>
Selling expenses	191,000	147,000	44,000	29.9%
General expenses	104,000	97,400	6,600	6.8%
Total operating expenses	<u>295,000</u>	<u>244,400</u>	<u>50,600</u>	<u>20.7%</u>
Operating income	160,000	135,600	24,400	18.0%
Other income	8,500	11,000	(2,500)	(22.7)%
	<u>168,500</u>	<u>146,600</u>	<u>21,900</u>	<u>14.9%</u>
Other expenses	6,000	12,000	(6,000)	(50.0)%
Income before income tax	<u>162,500</u>	<u>134,600</u>	<u>27,900</u>	<u>20.7%</u>
Income tax	71,500	58,100	13,400	23.1%
Net income	<u>91,000</u>	<u>76,500</u>	<u>14,500</u>	<u>19.0%</u>

Comparative retained earnings statement with horizontal analysis

Comparative Retained Earnings Statement
December 31, 2008 and 2007

	2008 (\$)	2007 (\$)	Increase or (Decrease)	
			Amount	Percent
Retained earnings, January 1	137,500	100,000	37,500	37.5%
Net income for year	91,000	76,500	14,500	19.0%
Total	228,500	176,500	52,000	29.5%
Dividends:				
On preferred stock	9,000	9,000	--	33.3%
On common stock	40,000	30,000	10,000	25.6%
Retained earnings, December 31	179,500	137,500	42,000	30.5%

Required:-

Apply the formulae covered in class to ascertain whether the above answers are true or false.

Show all the workings (16 Marks)