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**KIBABII UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**2020/2021 ACADEMIC YEAR**

**THIRD YEAR SECOND SEMESTER**

**MAIN EXAMINATION**

**FOR THE DEGREE OF BACHELOR OF COMMERCE**

**COURSE CODE: BCF 321**

**COURSE TITLE: FINANCIAL STATEMENT ANALYSIS**

**DATE:**

**TIME:**

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**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 6 Printed Pages. Please Turn Over.**



## SECTION A

### QUESTION ONE (COMPULSORY)

- a) Accounting information is produced in terms of financial statements. This information aids the decision making process to various interested parties. Discuss five users of accounting information. (10marks)
- b) Ratio analysis is a vital tool for financial analysis discuss five objectives that ratio analysis fulfils (5marks)
- c) Discuss five objectives of financial statement analysis (5marks)
- d) Highlight five importance of common size analysis (5marks)
- e) Highlight five indicators of financial distress (5marks)

## SECTION B

### QUESTION TWO

The following Financial statement has been extracted from the books of ABC Ltd and XYZ Ltd which belong to the same industry for the year ending 31/03/2008.

Balance sheet as at 31/12/2005

<b>INCOME STATEMENTS</b>	<b>ABC LTD</b>	<b>XYZ LTD</b>
Net sales	976,000	884,000
Cost of goods sold	(685,000)	(576,000)
Selling and administration	(53,000)	(45,000)
Interest expense	(18,000)	(14,000)
Income tax	(105,000)	(120,000)
Profit after tax	112,000	129,000
<b>BALANCE SHEET</b>	<b>ABC LTD</b>	<b>XYZ LTD</b>
Shareholder's funds		
Share capital	250,000	250,000
Reserves and Surplus	118,000	86,000
Secured loans	90,000	80,000
Unsecured loans	30,000	10,000
Current liabilities	233,000	171,000
<b>TOTAL</b>	<b>721,000</b>	<b>597,000</b>



<b>ASSETS</b>	<b>ABCLTD</b>	<b>XYZ LTD</b>
Fixed assets	322,000	265,000
Investments	28,000	43,000
Inventories	106,000	49,000
Debtors	209,000	156,000
Cash	44,000	70,000
Other current assets	12,000	14,000
<b>TOTAL</b>	<b>721,000</b>	<b>597,000</b>

**Required:**

Prepare common size statements for both companies and comment (20marks)

**QUESTION THREE**

- a) You are provided with extracts from the financial statements of ABC Ltd for the year ended 31<sup>st</sup> December 2011.

ABC Ltd  
Statement of Financial Position

	Kshs.
Net equipment	1,610,000
Cash	480,000
Debtors	650,000
Stock	2,080,000
	<b>4,820,000</b>
Long term debt (10%)	1,610,000
Shareholders' equity	1,500,000
Trade creditors	870,000
Notes payable (9%)-short term	840,000
	<b>4,820,000</b>

Statement of incomes

	Kshs.
Sales	6,100,000
Less: cost of sales	3,600,000
<b>Gross profit</b>	<b>2,500,000</b>
Less: expenses	
Selling expenses	650,000
Administration expenses	1,120,000
Interest charge	235,600
	<b>2,005,600</b>
Profit before tax	494,400
Taxation	177,760
<b>Net profit</b>	<b>316,640</b>

**Additional Information:**

- i. The market price per share of ABC Ltd is kshs. 5, Par value kshs. 1
- ii. Retained earnings are kshs. 467,640
- iii. Shareholders equity comprises only of share capital and retained earnings

**Required:**

Calculate the Altman Z-score for ABC Ltd and interpret it

(20 marks)

**QUESTION FOUR**

The financial statements for ABC Company Limited for the year ending 31 / 12/ 2018 are as follows:

**ABC Company Limited****Profit and Loss Account for the year ended 31.12.2018**

	SH	SH
Sales		850,000
<b>Less: Cost of sales</b>		
Opening stock	99,500	
Purchases	<u>559,500</u>	
	659,000	
Less: closing stock	<u>(149,000)</u>	<u>(510,000)</u>
Gross profit		340,000
<b>Less expenses</b>		
Selling and administration	30,000	
Depreciation	10,000	
Administration expenses	<u>135,000</u>	<u>(175,000)</u>
<b>Earnings Before Interest &amp; Tax</b>		165,000
Interest		<u>15,000</u>
Earnings Before Tax		150,000
Tax @ 50%		<u>75,000</u>
Earnings After Tax		75,000
Less ordinary dividends (0.75/share)		<u>15,000</u>
<b>Retained profit for the year</b>		<u>60,000</u>



## ABC COMPANY LIMITED

### Balance Sheet as at 31.12.2018

<u>Non Current Assets</u>	<u>Sh.</u>	<u>Issued share capital</u>	<u>Sh.</u>
Land and Buildings	250,000	(20000 share of Sh.10)	200000
Plant & Machinery	<u>80,000</u>	Reserve	90000
	330,000	Retained profit	60000
Current Assets		Long term	100000
Inventory	149,000	Current liabilities.	130000
Debtors	75,000		
Less provision	<u>(4,000)</u>		
Cash	<u>30,000</u>		
	<u>580,000</u>		<u>580,000</u>

#### Required:

Compute the following relevant ratios.

- i. Current ratio
- ii. Cash ratio
- iii. Debt ratio
- iv. Debt – Equity ratio
- v. Debtors turnover ratio
- vi. Fixed asset turnover ratio
- vii. Net Profit Margin
- viii. Return On Equity
- ix. Earnings Per Share
- x. Earnings yield

(20marks)

#### QUESTION FIVE

- a) Discuss the ex-post analysis of the factors that must be put into consideration which are bound to have serious implications on the time series patterns. (12marks)
- b) Briefly discuss Four methods used in forecasting (8marks)