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KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS
2019/2020 ACADEMIC YEAR
THIRD YEAR SECOND SEMESTER
SPECIAL / SUPPLEMENTARY EXAMINATION
FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: BCF 325

COURSE TITLE: FINANCIAL STATEMENT ANALYSIS

DATE: 1ST FEBRUARY, 2021

TIME: 2.00PM – 4.00PM

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. ►

SECTION A

QUESTION ONE (COMPULSORY)

- a) Discuss the various users and their interest of financial statements. (10marks)
- b) Discuss five importance of financial forecasting (5marks)
- c) Discuss the roles of financial statement analysis (5marks)
- d) As a tool of financial statement analysis, explain five ways in which financial ratios are limited. (5marks)
- e) Highlight five uses of time series analysis (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

INCOME STATEMENTS	ABC LTD	XYZ LTD
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
BALANCE SHEET	ABC LTD	XYZ LTD
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
TOTAL	721,000	597,000

ASSETS	ABCLTD	XYZ LTD
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
TOTAL	721,000	597,000

Required:

Prepare common size statements for both companies and comment

(20marks)

QUESTION THREE

- a) Calculate the following ratios from the following accounts of a manufacturer of products for the construction industry and comment on the ratios.

	2010	2009
Sales revenue	2,065.0	1,788.7
Cost of sales	(1,478.6)	(1,304.0)
Gross profit	586.4	484.7
	2010	2011
Current Assets		
Inventories	119.0	109.0
Accounts Receivables	400.9	347.4
Short term investments	4.2	18.8
Cash at bank and in hand	48.2	48.0
Total current assets	572.3	523.2
Current liabilities		
Loans and overdrafts	49.1	35.3
Corporation taxes	62.0	46.7
Dividend	19.2	14.3
Accounts payable	370.7	324.0
Net current assets	71.3	102.9

	572.3	523.2
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Notes:

	2010	2009
1) Trade accounts	329.8	285.4
2) Trade accounts payable	236.2	210.8

Required:

- i. Current Ratio
- ii. Quick ratio
- iii. Accounts receivable turnover
- iv. Inventory turnover period
- v. Accounts payable turnover period (20marks)

QUESTION FOUR

- a) Altman Z-score measure a company's health and likelihood of bankruptcy. Discuss in details what you understand by Altman Z-score. Particularly give a definition, show the formula and define its elements, provide the interpretation guide. (15marks)

- b) You have just been appointed as the finance director at a newly established commercial bank. You reckon that the firm's financial plans must be anchored on a good forecasting system. What characteristics or features would you incorporate in designing your forecasting (5marks)

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)