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(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2021/2022 ACADEMIC YEAR

THIRD YEARS FIRST SEMESTER

MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: BCF 321/BCF325

COURSE TITLE: FINANCIAL STATEMENT ANALYSIS

DATE: 18TH MAY, 2022

TIME: 9.00AM – 11.00AM

INSTRUCTIONS TO CANDIDATES

1. Answer Question One in Section A and Any other TWO (2) Questions in Section B
2. Question **one** carries **30** marks and each of the other two questions carry **20** marks each.

TIME: 2 Hours

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QUESTION ONE.

- a) Briefly explain how the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) secure the analysis and reporting of financial information. **(10 marks).**

(b)

KK Company Ltd had the following balance sheets and Income statements over the years 2014, 2015 and 2016. The figures are in thousands.

**KK COMPANY
LTD.
Balance Sheet
at:**

Shillings '000'

Particulars	Shillings '000'		
	2014	2015	2016
Cash	618	497	305
Receivables	2,064	3,014	4,621
Inventories	2,435	2,817	3,590
Current Assets	5,117	6,328	8,516
Net Fixed Assets	2,895	4,912	4,955
Total Assets	8,012	11,240	13,471
Payables	2,055	4,114	4,752
Accruals	503	722	780
Short term bank loan	405	1,120	1,350
Current Liabilities	2,963	5,956	6,882
Long term debt	741	1,490	1,400
Shareholder's equity	4,900	5,300	6,700
Total Liability and Shareholder's equity	8,604	12,746	14,982

**Income Statements for
period ended:**

Particulars	2014	2015	2016
Sales	12,180	16,700	18,400
Cost of goods sold	8,780	12,800	14,080
Selling, general and administrative expenses	2,315	2,520	2,850
Interest	112	280	312
Profit before taxes	973	1,100	1,158
Taxes	360	420	505
Net Profit	613	680	653

Required.

Using common-size analyses discuss the performance of the company for the years 2014 - 2016. (10 Marks).

c) The Return on Equity (ROE) of ABC Ltd for the 12-year span is shown as follows:

YEAR	ROE (%)	YEAR	ROE (%)	YEAR	ROE (%)	YEAR	ROE (%)
1	2.2	4	3.2	7	8.2	10	5.8
2	5.0	5	2.9	8	3.8	11	9.1
3	7.9	6	5.2	9	3.2	12	4.1

Required.

Perform a time series analysis to establish the performance trend for the 12 -year span and commend on your analysis. (10 Marks).

[TOTAL = 30 MARKS]

QUESTION TWO.

Sasini Tea and Coffee Ltd 2019 and 2020 are shown as follows:

Sasini Tea & Coffee Ltd balance sheet as at 31-12-15 & 16

	2019	2020
Cash	72,000	65,000
Accounts receivable	439,000	328,000
Inventories	894,000	813,000
Total current assets	1,405,000	1,206,000
Land & buildings	238,000	271,000
Machinery	132,000	133,000
Other fixed assets	61,000	57,000
Total	1,836,000	1,667,000
Accounts payable	432,000	409,500
Accruals	170,000	162,000
Total; Current liabilities	602,000	571,500
Long-term debt	404,290	258,898
Common stock	575,000	575,000
R/E	254,710	261,602
Total liabilities & equity	1,836,000	1,667,000

Sasini Tea & Coffee Ltd Income statement extract for years ending 31-12-15 & 2016.

	2015	2016
Sales	4,240,000	3,635,000
Gross profit	560,000	655,000
Depreciation	159,000	154,500
Other expenses	236,320	213,550
Miscellaneous	134,000	127,000
EBT	30,680	159,950
Taxes (40%)	12,722	63,980
Net income	18,408	95,970

Required.

Assess the performance of the firm in terms of the following:

- a) The liquidity position of the firm (5 marks)
- b) Financial Leverage of the firm (5 marks)
- c) Asset Utilization (5 marks)
- d) Profitability of the firm (5 marks)

[TOTAL = 20 MARKS]

QUESTION THREE;

- (a) Highlight the limitations of ratio analysis in predicting business failure. (10 marks).
- (b) Express Kenya Ltd. had sales of shs. 200,000, 000 a net income of Shs. 15,000,000 for year ending 31st December 2021, and the following balance sheet:

	Shs. 000		Shs. 000
Cash	10,000	Accounts payable	30,000
Receivables	50,000	Accruals	20,000
Stock	150,000	Long- term debt	40,000
Net fixed assets	90,000	Retained Earnings	10,000
		Common equity	200,000
Total assets	300,000	Total liability & equity	300,000

Other data; market value of equity = 250,000,000

Using the Edward Altman model of **Z-Score = 1.2X₁ + 1.4X₂ + 3.3X₃ + 0.6X₄ + 1.0X₅**, describe whether the firm is in financial distress or not? (10 Marks).

[TOTAL = 20 MARKS]

QUESTION FOUR.

- (a) Looking beyond ratios, state and explain FIVE qualitative factors that might diagnose business failure. **(10 Marks).**
- (b) State and explain some of the options available to businesses in dealing with financial distress. **(10 Marks).**

[TOTAL = 20 MARKS]

QUESTION FIVE:

The following is the balance sheet of Eldoret Steel Mills Ltd as at 31st December, 2021.

	<u>Shillings '000'</u>
Net Fixed Assets	300
Current Assets	<u>100</u>
	<u>400</u>
Financed by:	
Ordinary Share Capital	100
Retained Earnings	70
10% debentures	150
Trade Creditors	50
Accrued Expenses	<u>30</u>
	<u>400</u>

Additional Information.

1. The sales for the year 2014 amounted to shillings **500,000**. The sales will increase by 15% during the year 2015 and 10% during the year 2016.
2. The after tax return on sales is 12% which shall be maintained in future.
3. The Company's dividend payout ratio is 80%. This is to be maintained during the forecasting period.
4. Additional financing from external sources will be effected through the issue of Commercial paper by the company.

Required.

- (a) Determine the amount of external finance for 2 years up to 31st December, 2021. **(10Marks).**
- (b) Prepare a proforma balance sheet as at 31st December, 2021. **(10 Marks).**

[TOTAL = 20 MARKS]