



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: 4th AUGUST 2021 TIME: 9.00 – 11.00 A.M

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

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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

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) You are provided with extracts from the financial statements of ABC Ltd for the year ended 31st December 2011.

ABC Ltd
Statement of Financial Position

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

Statement of incomes

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

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
Less: Cost of sales		
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
Less expenses		
Selling and administration	30,000	
Depreciation	10,000	
Administration expenses	<u>135,000</u>	<u>(175,000)</u>
Earnings Before Interest & Tax		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>
Retained profit for the year		<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>		
	71,000		
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)