KIBABII UNIVERSITY COLLEGE

(A Constituent College of MasindeMuliro University of Science Technology)

P.O. Box 1699-50200 Bungoma, Kenya

Tel. 020-2028660/0708-085934/0734-831729

DEPARTMENT OF BUSINESS MANAGEMENT AND ECONOMICS

UNIVERSITY REGULAR EXAMINATIONS

2013 /2014 ACADEMIC YEAR

3RD YEAR 2ND SEMESTER EXAMINATIONS

(MAIN EXAMINATION)

FOR THE DEGREE OF BACHELOR OF

COMMERCE

COURSE CODE: BBM 325

COURSE TITLE: FINANCIAL STATEMENT ANALYSIS

DATE: 16TH APRIL 2014   **TIME:** 9.00 A.M – 12.00 NOON

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INSTRUCTIONS TO CANDIDATES:

- Answer question ONE and any other THREE

QUESTION ONE (COMPULSORY)

a) The users of accounting information (Financial Statements) have an interest in the existence of the firm. Therefore the information contained in the financial statements will affect their decision making process. Discuss the following users of accounting information.

i)   Manager.

ii)   Government and its agencies.

iii)   Financial Analyst and Advisors.

iv)   Trade Unions.

v)   Investors.

(10mks)

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

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Prime Ltd

Statement of Financial Position

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	Kshs.
Net equipment	1,610,000.00
Cash	480,000.00
Debtors	650,000.00
Stock	2,080,000.00
	4,820,000.00
Long term Debt (10%)	1,610,000.00
Shareholders Equity	1,500,000.00
Trade Creditors	870,000.00
Notes payable (9%)-short term	840,000.00
	4,820,000.00

STATEMENT OF INCOMES

Sales	6,100,000
Less: cost of sales	3,600,000
Gross profit	2,500,000
Less: expenses	
Selling expenses	650,000

Administrative 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 prime ltd is Kshs.5, par value Kshs.

(ii)   Retained Earnings is Kshs.467,640

(iii)   Shareholders Equity comprises only of share capital and retained earnings.

Required:-

Calculate the Altman Z- score for prime Ltd and interpret it   (15mks)

QUESTION TWO

a)   Rafiki Hardware Tools Company Limited sells plumbing fixtures. Its financial statements for the last three years are as follows:-

Items	1998 Shs.	1999 Shs.	2,000 Shs.
Cash	800,000	800,000	800,000
Accounts receivable	30,000	20,000	5,000
Inventory	200,000	260,000	290,000
Fixed Assets	400,000	480,000	600,000
TOTAL ASSETS	1,430,000	1,560,000	1,695,000
Accounts payable	230,000	300,000	380,000
Accruals	200,000	210,000	225,000
Short-term bank loan	100,000	100,000	140,000
Long-term debt	300,000	300,000	300,000
Common Stock	100,000	100,000	100,000
Retained Earnings	500,000	550,000	550,000
TOTAL	1,430,000	1,560,000	1,695,000
Addition information			
Sales	4,000,000	4,300,000	3,800,000
Cost of goods sold	3,200,000	3,600,000	3,300,000
Net Profit	300,000	200,000	100,000

Required:-

For each of the three years, calculate the following ratios.

i)   Quick ratio

ii)   Current ratio

iii)   Stock turnover ratio

iv)   Average collection period

v)   Total Assets turnover

vi)   Net profit margin

vii)   Debt Equity ratio

(15mks)

QUESTION THREE

a) Describe some of the analytical uses to which financial statements analysis can be put.

(5mks)

b) The balance sheets of F.Black a sole trader, for two successive years are as shown below.

F. Black
Balance Sheets as at 31 December

	2005 Shs.	2006 Shs.
Fixed Assets		
Land and premises (cost sh. 52,000)	44,000	40,000
Plant and machinery(cost sh. 19,000)	14,250	
(cost sh. 25,000)		19,600
Total Fixed Assets	58,250	59,600
Current Assets		
Stocks	6,600	6,300
Trade Debtors	17,800	12,600
Bank		7,100
Total current Assets	24,400	26,000
Current Liabilities		
Trade creditors	22,000	11,600
Bank overdraft	13,650	
Total Current Liabilities	35,650	11,600
Working Capital	(11,250)	14,400
Capital Employed	47,000	74,000
Loan(Repayable December 2008)		(20,000)
	47,000	54,000
Represented by		
Capital Account:		
Balance at 1st January	42,000	47,000
Add net profit for the year	18,000	22,000
	60,000	69,000
Less Drawings	(13,000)	(15,000)
	47,000	54,000

Represented by
Capital accounts:

Balance at 1 January	42,000	47,000
Add net profit for the year	18,000	22,000
	60,000	69,000
Less Drawings	(13,000)	(15,000)
	47,000	54,000

Required:-

A cash flow statement for the year ending 31/12/2006 using the IAS 7 layout. (10mks)

QUESTION FOUR

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

b) By use of drawings, show the various methods of studying time series data in financial modeling and forecasting. (8mks)

c) Distinguish between cross sectional analysis and time series analysis as used in financial analysis and forecasting. (2mks)

QUESTION FIVE

a) You have been appointed the manager at Bamboo Ltd in charge of revenue and cost forecasting. For the past financial year the income stamen of bamboo Ltd show the following:-

		Shs.
Sales (3,000 units)		30,000
Direct material	9,000	
Direct Labour	6,000	
Variable production overhead	3,000	
Fixed overhead	8,000	26,000
Profit		4,000

Additional information

Only one product is produced and no changes in stock took place. For the coming year the following changes are expected: -

i) The unit selling prince is to Increase to sh. 10.30
ii) The sales volume should increase by 5%.
iii) Unit material cost will go up by 6%.
iv) Labour rates are expected to be 4% higher.
v) Fixed costs to increase to sh. 9,200

Required:-

A revised profit figure. (5mks)

b) Discuss five qualitative characteristics that underlie the cooperate reports. (5mks)

c) Write short explanatory notes on each of the following terms as used in financial modeling and forecasting:-
i) The Delphi technique.
ii) Pro-forma financial statements.
iii) Common size analysis.
iv) Lead-lag analysis.
v) Percentage of sales method. (5mks)