



MURANGA UNIVERSITY COLLEGE

(A constituent College of Jomo Kenyatta University of Agriculture & Technology)

MAIN CAMPUS

ORDINARY UNIVERSITY EXAMINATIONS

2014/2015 ACADEMIC YEAR

THIRD YEAR FIRST SEMESTER EXAMINATIONS

**FOR THE DEGREE
OF
BACHELOR OF COMMERCE**

COURSE CODE: HBF 2303

COURSE TITLE: FINANCIAL STATEMENT ANALYSIS

DATE: August 2015

TIME: Two Hours

INSTRUCTIONS TO CANDIDATES

Answer **ALL** Questions

MRUC observes ZERO tolerance to examination irregularities

This Paper Consists of 2 Printed Pages. Please Turn Over. ►

QUESTION ONE

The following is the Statement of Financial Position of XYZ Ltd as at 31st December 2012:

| | Sh. '000' |
|------------------------|------------------|
| Net non-current assets | 600,000 |
| Current assets | <u>400,000</u> |
| | <u>1,000,000</u> |
| Financed by: | |
| Ordinary share capital | 400,000 |
| Retained earnings | 140,000 |
| 10% debentures | 300,000 |
| Trade creditors | 100,000 |
| Accrued expenses | <u>60,000</u> |
| | <u>1,000,000</u> |

Additional Information

1. The sales for year 2012 amounted to Sh.1, 000, 000. The sales will increase by 15% during year 2013 and 10% during year 2014.
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 will be maintained during forecasting period.
4. Any additional financing from external sources will be affected through the issue of commercial paper by company.

Required

- a) Determine the amount of external finance for 2 years up to 31st December 2014. **(15 marks)**
- b) Prepare a Proforma statement of financial position as at 31 December 2014 **(10 marks)**

QUESTION TWO

- (a) Explain the meaning and significance of the following ratios **2 marks each**
 - (i) Quick ratio
 - (ii) Average collection period
 - (iii) Return on equity
 - (iv) Days' sales in inventory
 - (v) Debt ratio
- a) Discuss the limitations of ratio analysis **(5 marks)**

QUESTION THREE

- a) Discuss the importance of preparing common size statement of financial position to a business organization. (6 Marks)
- a) Prepare Common size statement of financial position of Equity Bank Ltd., as on 31st March 2012 and 2013.

(9 Marks)

| Particulars | 31st March 2012 Amount | 31st March 2013 Amount |
|---|-----------------------------------|-------------------------------|
| Fixed Assets | | |
| Investments | 21, 421,060 | 23, 537,098 |
| Advances | 1,95,99,764 | 2, 1139,869 |
| Fixed Assets | 493,996 | 536,442 |
| Other Assets | 1, 858,064 | 1,835,883 |
| Total Non-Current Assets | 43, 372,884 | 47,049,292 |
| Current Assets | | |
| Cash and Statement of financial position with CBK | 2, 706 808 | 2, 237,601 |
| Statement of financial position with banks and money at call and short notice | 1, 136,781 | 1, 607,975 |
| Total Current Assets | 3, 843,589 | 3, 845,576 |
| Total Assets | 47, 216,473 | 50, 894,868 |
| Fixed Liabilities | | |
| Capital | 2,845 | 2,845 |
| Reserve and Surplus | 3, 966,009 | 4, 765,406 |
| Deposits | 40, 845,783 | 4,40,42,730 |
| Total Fixed Liabilities | 44, 814,637 | 48, 810,981 |
| Current Liability | | |
| Borrowings | 727,671 | 284,690 |
| Other Liabilities | | |
| Provisions | 1, 674,165 | 1, 799,197 |
| Total Current Liability | 2, 401,836 | 2, 083,887 |
| Total Liabilities | 47, 216,473 | 50, 894,868 |

QUESTION FOUR

- a) What is ratio analysis? Explain its types. **(6 Marks)**
- b) From the following statement of financial position of Steal Mill Industries Ltd., as 31st March 2012.

| Liabilities | ksh | Assets | ksh |
|-----------------------------|---------------|---|---------------|
| Equity Share Capital | 10,000 | Fixed assets (less depreciation Rs. 10,000) | 26,000 |
| 7% Preference Share Capital | 2,000 | Current Assets: | 1,000 |
| Reserves and Surplus | 8,000 | Cash | 3,000 |
| 6% Mortgage Debentures | 14,000 | Investments (10%) | 4,000 |
| Current Liabilities: | 1,200 | Sundry debtors | 6,000 |
| Creditors | 2,000 | Statement of financial position | |
| Bills payable | 200 | | |
| Outstanding expenses | 2,600 | | |
| Tax Provision | | | |
| | 40,000 | | 40,000 |

Compute the following ratios:

1.5 marks each

- Current Ratio
- Debt-Equity ratio
- Debt- Asset ratio
- Interest coverage ratio
- Noncurrent Asset ratio
- Inventory Turnover Ratio

(9 Marks)