



MURANG'A UNIVERSITY COLLEGE
(A constituent college of Jomo Kenyatta University of Agriculture and Technology)

Date: 26th October 2015

Instructions

Answer Question One and any other Two
 All workings MUST be clearly shown

Question One

You have been provided with the following summarised accounts of Golden Times Ltd. For the year ended 31 March 2014:

Balance sheet as at 31 March 2000

Non Current Assets:	Sh.	Sh.	Sh.
Freehold property (Net book value)			480,000
Plant and machinery (Net book value)			800,000
Motor vehicles (Net book value)			200,000
Furniture and fittings (Net book value)			<u>200,000</u>
			1,680,000
Current Assets:			
Stocks		1,000,000	
Debtors		400,000	
Investments		<u>120,000</u>	
		1,500,000	
Current liabilities:			
Trade creditors	238,400		
Bank overdraft	878,400		
Corporation tax	176,000		
Dividends payable	<u>107,200</u>	<u>(1,400,000)</u>	<u>120,000</u>
			<u>1,800,000</u>
Financed by:			
Authorised share capital – 800,000			
Sh.1 ordinary shares			400,000
Issued and fully paid: 400,000 Sh.1			200,000
Ordinary shares			800,000
Capital reserve			
Revenue reserve			<u>400,000</u>
Loan capital: 400,000 10% Sh.1			<u>1,800,000</u>

Debentures

Statement of Comprehensive Income for the year ended 31 March 2014

	Sh.
Sales (credit)	<u>4,000,000</u>
Profit after charging all expenses except interest on debentures	440,000
	<u>40,000</u>
Less: debenture interest	400,000
Profit before tax	<u>176,000</u>
Corporation tax	224,000
	<u>107,200</u>
Less: ordinary dividend proposed	<u>116,800</u>
Retained profit transferred to revenue reserve	

The following additional information was available:

1. The purchases for the year were Sh.2,160,000 while the cost of sales was Sh.3,000,000.
2. The market price for Golden Times Ltd. Ordinary shares as at 31 March 2000 was Sh.5
3. The company estimates the current value of its freehold property at Sh.1,100,000.

Required:

- (a) Compute the following ratios for Golden Times Ltd.:
- | | |
|---|------------|
| (i) Return on capital employed | (2 mark) |
| (ii) The profit margin | (2 marks) |
| (iii) Current ratio; | (2 mark) |
| (iv) Quick ratio; | (2 marks) |
| (v) Number of days accounts receivable are outstanding; | (2 mark) |
| (vi) Stock turnover ratio; | (2 mark) |
| (vii) Dividend yield ratio; | (2 mark) |
| (viii) Price earnings ratio. | (2 marks) |
- (b) Comment on Golden Times Ltd. Liquidity stating the reference points to which relevant ratios can be compared. (6 marks)
- (c) Objectives of Financial Statement Analysis (4 marks)
- (d) Discuss the limitations of financial statement analysis 4 marks

(Total: 30 marks)

Question Two

The actual sales and purchases for Mosobeti Ltd for September and October 2008, along with its forecast sales and purchases for the period November 2008 through April 2009 as follows

Year	Month	Sale	Purchase
2008	September	210,000	120,000
2008	October	250,000	150,000
2008	November	170,000	140,000
2008	December	160,000	100,000
2009	January	140,000	80,000

2009	February	180,000	110,000
2009	March	200,000	100,000
2009	April	250,000	90,000

The firm makes 20% of all sales for cash and collects on 40% of its sales in each of the 2 months following the sale. Other cash inflows are expected to be Kshs 12,000 in September and April, Kshs 15,000 in January and march, and Kshs 27,000 in February. The firm pays cash for 10% of its purchases 2 months later. It pays for 40% of its credit purchases in the following month and the remaining portion 2 months later.

Wages and salaries amount to 20% of preceeding months sales .are piad rent of Kshs 20,000 per month must be paid. Interest payments of Kshs 10,000 are due in January and April. A principal payment of Kshs 30,000is also due in April. The firm expects to pay cash of dividends of Kshs 20,000in January and April. Taxes of Kshs 80,000 are due in April. The firm also intends to make 25,000 cash purchase of fixed assets in December.

Required

- Assuming that the firm has a cash balance of Kshs 22,000 at the beginning of November, Determine the end of month cash balances for each month November through April. **(10 Marks)**
- Assuming that the firm wishes to maintain Kshs 15,000 minimum cash balance determine the required total financing or excess cash balance for each month, November through April. **(5 marks)**
- If the firm were requesting a line of credit to cover needed financing for the period November to April, how large would this line have to be? Explain your answer. **(5 Marks)**

Question Three

A Co. organized to manufacture IT products is managed by well grounded experts in management and with very rich experience. However the directors come from diverse backgrounds of economic and industrial fields but are men of repute.

Recently the Co. obtained an overdraft facility from NMB bank to the extent of Kshs. 100,000,000. This has been found very satisfactory for the Co. requirements in the past. Currently, the directors are facing challenges in meeting the financial commitments despite a steady increase in the Co.'s business.

Below are the financial statements of the Co.

	P&L Account of the Co. for the year ending....			
	2005	2006	2007	2008
No. of units sold	40,000	48,000	68,000	80,000
Sales	40,000,000	48,000,000	85,000,000	100,000,000
Cost of material	20,000,000	28,000,000	45,000,000	56,000,000
G. Profit	20,000,000	20,000,000	40,000,000	44,000,000
Less Exp.				
Indirect Exp.	12,000,000	13,000,000	14,000,000	16,000,000
Tax	4,000,000	3,400,000	14,000,000	16,000,000
Net Profit	4,000,000	3,600,000	12,000,000	12,000,000

Balance Sheet of the Co. as at 31 Dec.....

	2005	2006	2007	2008
Closing Stock	360,000	400,000	800,000	1,200,000
Non Current Assets	4,000,000	4,000,000	4,000,000	8,800,000
Creditors	1,600,000	2,400,000	7,200,000	8,000,000
Debtors	3,400,000	4,400,000	12,000,000	16,000,000
Bank Overdraft	3,000,000	4,000,000	9,200,000	10,500,000

One of the directors approaches you to advise him on the following

a) The reasons for the progressively deteriorating financial position of the Co.

10 Marks

b) The possible steps which might be taken to improve the situation.

10 Marks

Question Four

- i. Describe the meaning and relevance of financial analysis. (5 Marks)
- ii. Discuss the users of financial statements. (5 Marks)
- iii. Describe sources of financial statements. (5 Marks)
- iv. Describe in detail financial ratios. (5 Marks)