



ORDINARY UNIVERSITY EXAMINATIONS 2015/2016
EXAMINATION FOR Y3S2 and Y4S2
PROGRAMME : BACHELOR OF COMMERCE

COURSE CODE: **HBF 2303**

COURSE TITLE: **FINANCIAL STATEMENT ANALYSIS**

DATE: 25TH APRIL 2016

TIME: 2 HOURS

INSTRUCTION TO CANDIDATES

Answer Question one and any other two

Question One

The following is the Statement of Financial Position of a firm as at 31st December 2015 is made available to you

Statement of Financial Position as at 31.12.2015

	Sh. '000'
Net non-current assets	1,200
Current assets	<u>400</u>
	<u>1,600</u>
Financed by:	
Ordinary share capital	400
Retained earnings	280
10% debentures	600
Trade creditors	200
Accrued expenses	<u>120</u>
	<u>1,600</u>

Additional Information

1. The sales for year 2015 amounted to Sh.2,000,000. The sales will increase by 15% during year 2016 and 10% during 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 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 upto 31st December 2017. (7 Marks)
- b) Describe briefly assumptions you considered in (a) above (4 marks)
- c) Prepare a proforma statement of financial position as at 31 December 2017 (7Marks)
- d) Explain uses and limitations of ratio analysis (7 Marks)
- e) Discuss causes of financial distress in an organization (6 Marks)

QUESTION TWO

Write short notes on the following

a).

- (i) Du-Pont analysis (2 mark)
- (ii) The profit margin (2 marks)
- (iii) Current ratio; (2 mark)
- (iv) Quick ratio; (2 marks)
- (v) Debt Asset Ratio ; (2 mark)
- (vi) Dividend yield ratio; (2 mark)
- (vii) Earnings Per Share ratio. (2 marks)

b). Discuss uses of any two financial statements (6 Marks)

QUESTION THREE

(i) The following budgets were extracted from books of A ltd.

Month	sales
October	1,200,000
November	800,000
December	900,000
January	760,000
February	1,000,000
March	820,000

Analysis of records reveals that sales were at a markup of 25% and debtors settle their obligations according to this pattern-

- i. 40% within the month of sales, 50% of the remainder in the following month and balance after 2 months.
- ii. 60% of purchases are on cash basis, while 20% is paid after one month and the remaining part after 2 months.

Additional information

- a) Wages amounting to shs 55,000 is paid monthly.
- b) Overheads of shs. 140,000 per month(including shs. 55,000 for depreciation is settled monthly.
- c) Debts and credits settled within the month of sales and purchase qualify for a discount of 5% and 3% respectively.

- d) Taxation of shs 58,000 was paid in February and A ltd received an insurance claim amounting to shs. 250,000 in March.
- e) The company has a policy of maintaining cash at hand of shs 100,000 and a maximum of shs. 180,000.
- f) Any shortfall is bridged by liquidating marketable securities and excess is invested in the same securities.

Required

- (a) Prepare a cash budget for A ltd for the period January- March (15 Mark)
- (b) Describe the objectives and significance of financial forecasting (5 Marks)

QUESTION FOUR

You have been provided with the following summarised accounts of Golden Times Ltd. For the year ended 31 March 2012:

A) Balance sheet as at 31 March 2012

Fixed 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>
Current Assets:			1,680,000
Stocks			
Debtors		1,000,000	
Investments		400,000	
			<u>120,000</u>
Current liabilities:		1,500,000	
Trade creditors			
Bank overdraft	238,400		
Corporation tax	878,400		
Dividends payable	176,000		
	<u>107,200</u>	<u>(1,400,000)</u>	<u>120,000</u>
Financed by:			<u>1,800,000</u>
Authorised share capital – 800,000			
Sh.1 ordinary shares			
Issued and fully paid: 400,000 Sh.1			400,000
Ordinary shares			200,000
Capital reserve			800,000
Revenue reserve			
Loan capital: 400,000 10% Sh.1			<u>400,000</u>

Debentures

1,800,000

b) Profit and loss account for the year ended 31 March 2000

	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	

Additional information:

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.

B) Required:

- (a) Prepare a common size for the firm (10 marks)
- (b) Describe any 5 limitations of Financial Analysis (5 Marks)
- (c) Explain how you would classify ratios (5 marks)