



MURANGA UNIVERSITY COLLEGE

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

MAIN CAMPUS

ORDINARY UNIVERSITY EXAMINATIONS

2015/2016 ACADEMIC YEAR

THIRD YEAR FIRST SEMESTER EXAMINATIONS

FOR THE DEGREE

OF

BACHELOR OF COMMERCE

COURSE CODE: HBF 2303

COURSE TITLE: FINANCIAL STATEMENT ANALYSIS

DATE: 15TH DECEMBER, 2015

TIME: 2 HOURS

INSTRUCTIONS TO CANDIDATES

Question ONE (1) is compulsory
Answer TWO (2) questions

MRUC observes ZERO tolerance to examination irregularities

QUESTION ONE

The Arusha manufacturing company was organized as a private Limited Company in the year 2000 to manufacture chemical products. The company's Chief Executive, Mr. James, is a chemical engineering graduate from the UK. He is a dynamic, energetic and very industrious young man. Mr. James recruited young engineers and managers to run the affairs of the company. By dint of the management's concerted efforts and zeal, the company has been running successfully since its inception.

However in the recent past, the company has been experiencing dearth of working capital. Because of increased demand of goods, the need for expanding production was strongly felt. Mr. James therefore asked his finance executive, Mr. Johannes, to approach Mr. Leo, the Branch Manager CRDB for a short-term loan. Johannes discussed with Mr. Leo the need for the loan and its payment. He was asked by Mr. Leo to submit financial statements for studying the position of the company and the genuineness of the loan requirements.

Mr. Johannes submitted the Statements of Comprehensive Income and Financial Position of the Arusha company for the past two years ending 31st December.

TABLE 1

Statement of Comprehensive Income for Arusha Company for the Period Ending 31st December 2010 and 2011

Particulars	(Amount in Kshs.)	
	2010	2011
Sales Income	110,500,000	120,600,000
Cost of Merchandise	71,000,000	79,000,000
Gross Profit	39,500,000	41,600,000
Less: Interest on Loans		
Selling, General and Administrative Expenses	2,400,000	2,400,000
Income Tax	15,000,000	16,200,000
	1,800,000	2,500,000
Net Profit after Tax	20,300,000	20,500,000

TABLE 2

Statement of Financial Position for Arusha Company as at 31st December 2010 and 2011

(Amount in Kshs.)

Assets	2010	2011
Non Current Assets	430,000,000	425,000,000
Cash	4,000,000	4,000,000
Receivables	76,000,000	80,000,000
Inventories	250,000,000	360,000,000
	330,000,000	444,000,000
Total	760,000,000	869,000,000
Liabilities & Equity	2010	2011
Net worth	410,000,000	458,000,000
Debt:		
Short-term Debt	100,000,000	127,000,000
Mortgage Loan	250,000,000	210,000,000
	350,000,000	337,000,000
Current Liabilities	----	74,000,000
Total	760,000,000	869,000,000

Putting yourself in the position of a loan officer of the CRDB Bank Ltd. Analyze the financial statements of the Arusha Company and make recommendations regarding sanction of the loan.

(15 Marks)

B. Write short notes on the following

- i. Objectives of financial analysis (5 Marks)
- ii. Limitations of Financial Analysis (5 Marks)
- iii. Ratio Classification (5 marks)

QUESTION TWO

Part (A)

Kileleni limited projected the following (in Kshs) on a monthly basis.

	October	November	December	January
Sales	80,000	120,000	60,000	80,000
Cost of goods sold	60,000	90,000	45,000	60,000
Gross profit	20,000	30,000	15,000	20,000
Expenses	16,000	18,000	15,000	16,000
Profit	4,000	12,000	NIL	4,000

The following additional information is available

- i) 25% sales are on cash basis. 80% of the remainder are paid for in the month following the sale and remainder in the second month following the sale.
- ii) Debtors in the end month of September amounted to 30,000/=.
- iii) All purchases are on credit and are paid in the month after purchase. Creditors at the end of September amounted to 20,000/=
- iv) Stocks at the end of September amounted to 34,000/=
- v) It is desired to maintain stocks at the end of each month equal to 50% of the next month's sales.
- vi) Expenses which include 2,000/= per month for depreciation are paid as they arise.
- vii) New non current assets will be purchased in October and paid for in December. They will cost 10,000/=
- viii) The cash balance at the end of September is expected to be 2,000

Required

Draw up a cash budget for each of the three months October, November and December.

(10 Marks)

B). Discuss the functions of a cash budget

(5 marks)

C. Discuss the types of comparison used in financial statement analysis

(5 Marks)

QUESTION THREE

You have been provided with the following summarised accounts of Golden Times Ltd. For the year ended 31 March 2000:

Balance sheet as at 31 March 2000

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			<u>1,800,000</u>

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	

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 | (1 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; | (1 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)

(Total: 20 marks)

QUESTION FOUR

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

	Sh. '000'
Net fixed asset	300
Current assets	<u>100</u>
	<u>400</u>
Financed by:	
Ordinary share capital	100
Retained earnings	70
10% debentures	150
Trade creditors	50
Accrued expenses	<u>30</u>
	<u>400</u>

Additional Information

- The sales for year 2012 amounted to Sh.500,000. The sales will increase by 15% during year 2003 and 10% during year 2014.
- The after tax return on sales is 12% which shall be maintained in future.
- The company's dividend payout ratio is 80%. This will be maintained during forecasting period.
- Any additional financing from external sources will be affected through the issue of commercial paper by company.

Required

- Determine the amount of external finance for 2 years upto 31st December 2014. **(10 Marks)**
- Prepare a proforma balance as at 31 December 2014 **(10 Marks)**