



# **MURANG'A UNIVERSITY OF TECHNOLOGY**

## **SCHOOL OF BUSINESS AND ECONOMICS**

### **DEPARTMENT OF COMMERCE**

#### **UNIVERSITY ORDINARY EXAMINATION**

**2017/2018 ACADEMIC YEAR**

**THIRD YEAR SECOND SEMESTER EXAMINATION FOR  
BACHELOR OF COMMERCE (FINANCE AND ACCOUNTING OPTIONS)**

**AND**

**FOURTH YEAR SECOND SEMESTER EXAMINATION FOR  
BACHELOR OF COMMERCE (ACCOUNTING OPTION)**

**BCA 304 – FINANCIAL STATEMENT ANALYSIS**

**DURATION: 2 HOURS**

**DATE: 26<sup>TH</sup> APRIL, 2018**

**TIME: 2.00 - 4.00 P.M.**

#### **Instructions to Candidates:**

1. Answer **Question 1** and **Any Other Two** questions.
2. Mobile phones are not allowed in the examination room.
3. You are not allowed to write on this examination question paper.

## SECTION ONE – ANSWER ALL QUESTIONS IN THIS SECTION

### QUESTION ONE

- a) Explain Five (5) importance of ratio analysis to a business enterprise . (5 marks).
- b) Identify with reasons, one party who may be interested in each of the following ratios
- i. Current Ratio. (2 marks).
  - ii. Debt to equity Ratio. (2 marks)
  - iii. Inventory turnover Ratio. (2 marks).
- c) Moonlight Ltd reported the following financial information.

YEAR	2014	2015
	KSH “000”	KSH “000”
Cash	416	420
Inventory	1,778	1,831
Accounts Receivable	1,212	1,236
Net Plant & equipment	4,094	4,258
Intangible	408	410
<b>Total Assets</b>	<b>7,908</b>	<b>8,155</b>

#### Required

- i. Create the horizontal common size analysis for Moonlight Company’s Assets, using 2014 as the base year. (3 marks).
  - ii. Create the vertical common size analysis for the moonlight company’s Assets. (6 marks).
- d. The following information was extracted from the financial statements of sunrise Ltd. and Sunset Ltd in respect of the year ended 31<sup>st</sup> December 2017

Statement of Comprehensive income extracted for the year ended 31 December 2017

	Sunrise Ltd.	Sunset Ltd.
	Shs “000”	Shs “000”
Sales	497	371
Cost of sales	258	153
Operating profit	138	79
Interest expenses	19	16

Statement of financial position extracts

As at 31<sup>st</sup> December 2017

	Sunrise Ltd	Sunset Ltd
	Shs. "000	Shs "000"
Non- current Assets	142	92
Current Assets		
Inventory	100	87
Debtors	46	42
Cash at bank	40	44
Current liabilities	98	108
Long-term loan	33	25
Shareholder's funds	197	132

Required for each company, compute the following ratios an comment on the overall performance of the two companies and advise which of the two would provide better investment opportunity.

- i. Current Ratio.
- ii. inventory Turnover ratio
- iii. Debt equity Ratio.

(10 marks)

**SECTION TWO – ANSWER ANY TWO QUESTIONS IN THIS SECTION**

**QUESTION TWO**

a) The following is the statement of financial position of Light Moon Ltd. as at 31<sup>st</sup> December 2016

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

### Additional Information

- The sales for the 2016 amounted to 500,000. The sales will increase by 15% during year 2017 and 10% during year 2018.
- The after tax return on sales is 12% which shall be maintained in future.
- The Company dividend payout ratio is 80%. This will be maintained during forecasting period.
- Any additional financing from external sources will be effected through the issue of commercial paper by the company.

### Required:

- Determine the amount of external finance for 2 years up to 31<sup>st</sup> December 2018 (12 marks)
- Prepare a proforma balance as at 31<sup>st</sup> December 2018. (8 marks)

### QUESTION THREE

- Write short notes on the following.
  - Enterprise Value. (2 marks)
  - Enterprise value multiples. (2marks)
  - Market capitalization of a public firm. (2 marks)
- The following financial statements relate to the CRV enterprises Ltd.

#### Statement of Financial position extract

As at 31<sup>st</sup> December 2014

Assets	Shs.	Liabilities+ Net worth	Shs.
Cash	28,500	Total creditors	116,250
Debtors	270,000	Notes Payable 9%	54,000
Stock	<u>649,500</u>	Other current liabilities	100,500
Total current Assets	948,000	Long term debt 10%	300,000
Net fixed Assets	<u>285,750</u>	Net work	663,000
Total Assets	1,233,750		1,233,750

#### Income statement for the year ended 31<sup>st</sup> Dec 2014

	Shs.
Sales	1,972,500
Less cost of sales	<u>(1,368,000)</u>
Gross profit	604,500
Selling and administration expenses	<u>(498, 750)</u>

Earnings before interest and tax	105,750
Interest expenses	<u>34,500</u>
Profit before taxes	71,250
Estimated taxation	<u>(28,500)</u>
Earnings after interest and tax	42,750

**Required**

Calculate

- i. Inventory turnover ratio. (2 marks)
- ii. Times interest Ratio. (2 marks)
- iii. Total Assets turnover Ratio. (2 marks)
- iv. Net profit margin. (2 marks)

Note: (round the ratios to one decimal place) (2 marks)

- c) The CRV enterprise Ltd operates in in industry whose norms are as follows.

Ratio	Industry Norm (Industry average)
Inventory turnover	4.0
Times interest	5.0
Total Assets turnover	2.4
Net Profit margin	3.1

**Required**

Comment on the revelation made by the ratios you have computed in part (b) above when compared with the industry average. (6 marks)

**QUESTION FOUR**

- a) Discuss the objectives of securities Analysis. (5 marks).
- b) Explain two approaches to security Analysis. (10marks).
- c) Distinguish between budgeting and financial forecasting. (5 marks).