

CHUKA



UNIVERSITY

## UNIVERSITY EXAMINATIONS

## ODEL

THIRD YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF  
COMMERCE

BCOM 334: FINANCIAL STATEMENT ANALYSIS

STREAMS: BCOM Y3S1

TIME: 2 HOURS

DAY/DATE: TUESDAY 30/03/2021

11.30 A.M – 1.30 P.M

## INSTRUCTIONS:

Answer question one and any other two questions

## QUESTION ONE (30 MARKS)

- (a) Briefly explain the parties interested in analysis of financial statement and why they are interested in the analysis. [6 marks]
- (b) What is the significance of a cash flow statement to a financial analyst? [6 marks]
- (c) The management of Cathy Chen Industries Ltd provides you with incomplete statement of financial performance as at 31<sup>st</sup> December 2013.

Cathy Chen Industries Ltd

Statement of financial position

As at 31<sup>st</sup> December 2013

Assets	Ksh
Cash	30,000
Marketable securities	25,000
Accounts receivables	?
Inventories	?
Total current Assets	?
Net Fixed Assets	?
<b>Total Assets</b>	?
<b>Liabilities &amp; stockholders</b>	

<b>Equity</b>	
Accounts Payable	120,000
Notes payable	?
Accruals	20,000
<b>Total current liabilities</b>	?

The following financial data for 2013 and underlying assumption are also available:

1. Sales totaled ksh 1,800,000
2. Gross profit margin was 25%
3. Inventory turnover was 6.0
4. Assume 360 days year
5. Average collection period was 40 days
6. The current ratio was 1.60
7. The total asset turnover ratio was 1.20

Find the missing values in the statement of financial position for Cathy Chen Company.

[18

marks]

## QUESTION TWO

- (a) What information is contained in the following additional sources of information for financial statement analysis?
- (i) Auditor's report [4 marks]
  - (ii) Management's discussion and analysis [4 marks]
- (b) You are provided with the following comparative statement relating to Home Africa over a three year period.

	2011	2012	2013
Financial leverage multiplier	1.75	1.75	1.85
Net profit margin	0.059	0.058	0.049
Earnings available to ordinary shareholders Ksh	211000	279040	269100
Total assets Ksh	100,000	128,000	115,000

Use DuPont system of analysis to determine for each year.

- (i) Return on Assets [3 marks]
- (ii) Sales [3 marks]
- (iii) Return on equity [3 marks]

- (c) Company A has a market to book ratio of 4.0 while the same ratio for company B is 1.6 .  
What is your interpretation for the difference in the ratios? [3 marks]

### QUESTION THREE

- (a) Explain the following components of business analysis
- (i) Financial analysis [3 marks]
  - (ii) Equity analysis [3 marks]
- (b) The following are extracts from the statement of financial position of Owen Ltd as at 31<sup>st</sup> December 2013.
- |   |         |
|---|---------|
| Total liabilities   | 150,000 |
| 5% preference share capital (2000,ksh 100 par): Authorized and issued | 20,000  |
| Ordinary share capital (100,000) ksh 2.5 par): Authorized and issued  | 250,000 |
| Share premium on ordinary shares                                      | 50,000  |
| Retained earnings   | 80,000  |
| The market price per ordinary share at the close of the year.         | 5.32    |

#### Required ;

Calculate and interpret

- (i) Debt on equity ratio [4 marks]
  - (ii) Book –to-market ratio [4 marks]
- (c) ABC Ltd ended 2018 with a net profit before tax of 218,000. The company is subject to a corporate tax rate of 40% and must pay ksh 32,000 in preferred stock dividends before distributing any earnings of the 85,000 ordinary shares currently outstanding. Calculate the EPS and retained earnings for the firm assuming that ordinary dividend paid was ksh 0.85 per share. [6 marks]

### QUESTION FOUR

- (a) What problems might a financial analyst encounter in comparing performance of companies on the basis of their ratios? [6 marks]
- (b) The following is a selected comparative statement for XYZ Ltd which began operations in the year 2011.

	2011	2012	2013	2014	2015
Sales (\$)	1,800	1,700	1,900	2,000	1,800
Cost of sales (\$)	600	800	1,100	1,000	1,200
Net income	2,400	900	800	1,000	600

**Required:**

- (i) Compute index number trend percentages for above accounts, using year 2011 as the base year and display your results using trend graph. [10 marks]
  - (ii) Describe the conditions that may limit application of index trend analysis. [4 marks]
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