

CHUKA



UNIVERSITY

**UNIVERSITY EXAMINATIONS**

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

**BCOM 334: FINANCIAL STATEMENT ANALYSIS**

**STREAMS: BCOM (Y3S1) ODEL**

**TIME: 2 HOURS**

**DAY/DATE: WEDNESDAY 07/8/2019**

**11.30 A.M. – 1.30 P.M.**

**INSTRUCTIONS: Answer question ONE and any other TWO questions**

- (a) Briefly explain three parties interested in analysis of financial statements and why they are interested in the analysis [6 marks]
- (b) Explain the following components of business analysis
- (i) Credit analysis [3 marks]
- (ii) Equity analysis [3 marks]
- (c) You are provided with the following information relating to Home-Africa ltd for the ear ended 31<sup>st</sup> December 2017

Preference dividends	61,000
Profit before tax	376,000
Sales	3,074,000
Current assets	1,223,000
Net fixed assets	2,374,000
Financial leverage multiplier	2.06
Tax rate	25%

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### Required:

- (i) Calculate earnings available to ordinary shareholders [4 marks]

Use DuPont system of analysis to determine

- (ii) The Net Profit Margin [2 marks]  
(iii) Return on Total Assets [2 marks]  
(iv) Total Assets turnover [2 marks]  
(v) Return on equity [2 marks]

### QUESTION TWO

- (a) Describe the nature of information obtained from the following sources:
- (i) Proxy statements [2 marks]  
(ii) Auditor's report [2 marks]  
(iii) Management Discussion & analysis [2 marks]  
(iv) Footnotes [2 marks]
- (b) The management of Butali Sugar Millers Ltd provides you with incomplete statement of financial performance as at 31<sup>st</sup> December 2017

Butali Sugar Millers Ltd  
Statement of Financial Position  
As at 31 December 2017

<b>Assets</b>	Sh.
Cash	30,000
Marketable securities	25,000
Accounts receivables	??
Inventories	??
<b>Total current assets</b>	??
Net fixed assets	??
<b>Total assets</b>	??
<b>Liabilities &amp; stockholders' equity</b>	
Accounts payable	120,000
Notes payable	??
Accruals	20,000
<b>Total current liabilities</b>	??
Long term debt	??
Shareholders' equity	600,000
<b>Total liabilities &amp; stockholders' equity</b>	??

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The following financial data for 2017 are also available:

1. Sales sh. 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
8. The debt ratio was 60%

Complete the statement of financial position for the company [12 marks]

**QUESTION THREE**

- (a) Distinguish clearly between vertical and horizontal analysis of financial statements [4 marks]
- (b) ABC ltd ended 2018 with a net profit before tax of ksh. 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]
- (c) Selected comparative income statements of SIB Company is given below:

<b>Year</b>	<b>2016</b>	<b>2015</b>
Net sales	990,000	810,000
Cost of goods sold	574,000	461,700
Gross profit	416,000	348,300
<b>Operating expenses</b>		
Selling expenses	130,000	132,000
General expenses	122,500	125,500
<b>Total operating expenses</b>	<b>252,500</b>	<b>257,500</b>
Income from operation	163,500	90,800
Interest expense	24,000	24,000
Income before tax	139,500	66,800
Income tax expense	36,360	17,368
Net income	103,140	49,432

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### Required:

Perform comparative analysis for the financial statements using index number trend analysis [10 marks]

### QUESTION FOUR

- (a) Explain the purpose for undertaking financial statement analysis [6 marks]
- (b) Discuss four limitations of financial statement analysis [4 marks]
- (c) The following is comparative summary of financial ratios for XYZ ltd and ABC ltd for the period ending 30.9.2016

	XYZ ltd	ABC ltd
Current ratio	2.08	1.97
Earnings per share	2.89	1.82
Dividend per share	1.29	0.75
Debt ratio	0.47	0.44
Times interest earned ratio	4.49	3.33

Explain which of the two companies has better performance on the basis of the value of each ratio indicated. [10 marks]

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