THARAKA   **UNIVERSITY**

COLLEGE

UNIVERSITY EXAMINATIONS

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

BCOM 334: FINANCIAL STATEMENT ANALYSIS

STREAMS: BCOM   **TIME: 2 HOURS**

DAY/DATE: WEDNESDAY 15/04/2020   **2.30 P.M. – 4.30 P.M.**
INSTRUCTIONS:

QUESTION ONE
(a)   Discuss the limitations of financial statements in presenting information on the financial position, performance and changes in financial position of a firm.   [10 marks]

(b)   The following is a summarized statement of financial position of WYATT Corporation for the years ended 31 December 2016 and 2017 respectively

	2016	2017
Assets		
Cash	175,000	192,000
Accounts receivable	248,000	359,000
Inventory	465,000	683,000
Total current assets	888,000	1,234,000
Land	126,000	138,000
Building & machinery	3,746,000	3,885,000
Less Accumulated depreciation	(916000)	(1131,000)
Total assets	3844000	4126000
Liabilities and equity		
Accounts payable	156,000	259,000
Taxes payable	149,000	124,000
Other short term payables	325,000	417,000
Total current liabilities	630,000	800,000
Bonds payable	842,000	825,000
Total liabilities	1,472,000	1,625,000
Common stock	846,000	863,000
Retained earnings	1526000	1,638,000

Total shareholders' equity	<u>2372000</u>	<u>2501000</u>
	<u>3844000</u>	<u>4126000</u>

Required:

Prepare vertical analysis statement of financial of WYATT corporation [12 marks]

(c) Discuss any four types of business analysis [8 marks]

QUESTION TWO

(a) (i) Explain the concept of DUPONT system of analysis [3 marks]

(ii) XYZ ltd has presented the following information for the year ended 2015, 2016 and 2017

	2015	2016	2017
Earnings attributable to ordinary shareholders	422,000	588,080	538,200
Total assets	200,000	256,000	230,000
Net profit marginal	11.8%	11.6%	9.8%
Financial leverage component (FLM)	1.75	1.75	1.75

Required:

Construct the Dupon system of analysis and for each year, determine:

(i) Return on assets (ROA

(ii) Return on equity (ROE) [8 marks]

(b) A year to year analysis of comparative income statement and statement of financial position of a firm is useful analysis tool. However, without proper care, such analysis can be misleading. Discuss the factors that contribute to such possibility. How can additional information and supplementary data (beyond financial statements) help prevent this possibility? [9 marks]

QUESTION THREE

The following information was extracted from the books of ABC ltd

ABC ltd
Comparative statement of financial position
As at 31st December:

Assets	2013 Sh.'000'	2012 Sh.'000'
Cash	40	47
Accounts receivable	30	35
Prepaid expenses	4	2
Building at cost	100	8
Accumulated depreciation	(9)	(6)
Equipment at cost	50	42
Accumulated depreciation	(11)	(7)
Land	50	37
	254	228
Liabilities and shareholders' equity		
Accounts payable	20	16
Long-term notes payable	30	20
Ordinary share capital	100	100
Retained earnings	104	92
	254	228

ABC ltd
Income statement
For the year ended 31st December 2013

		Sh.'000'
Total revenue		300
Operating expenses	200	
Depreciation	7	(207)
Income tax		(32)
		61

Required:

Cashflow statement for the year ended 31st December 2013 [12 marks]

(b) Explain the significance of the following cashflow activities

    (i) Operating activities [3 marks]

    (ii) Investing activities [2 marks]

(iii)   Financing activities   [3 marks]

QUESTION FOUR

(a)   Write short notes on the following:

     (i)   Prospective analysis   [3 marks]

     (ii)   Credit analysis   [3 marks]

     (iii)   Operating segments   [2 marks]

(b)   State and explain any four potential users of financial statement information   [8 marks]

(c)   Provide an explanation of the following:

     (i)   Common size financial statements   [2 marks]

     (ii)   Special purpose examination   [2 marks]