MACHAKOS UNIVERSITY

University Examinations for 2016/2017 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT SCIENCES

FOURTH YEAR FIRST SEMESTER EXAMINATION FOR DEGREE IN BACHELOR OF COMMERCE

BAC 407: FINANCIAL STATEMENT ANALYSIS

DATE: 2/6/2017 **TIME: 11:00 – 1:00 PM**

INSTRUCTIONS:

Answer Question One and Any Other Two Questions

QUESTION ONE

a) The following are the summarized financial statements of Deweto limited:

Income Statement for the year ended 31 October.

	2015 Sh.'000	**2016 Sh.'000**
Sales	93,500	11,350
Cost of sales	(55,120)	(72,970)
Gross profit	38,380	38,380
Expenses	(26,230)	(23,960)
Net profit before interest and tax	12,150	14,420
Loan interest	(450)	(375)
Net profit before tax	11,700	14,045
Taxation	(3,510)	(5,413.5)
Net profit after tax	8,190	8,631.5
Dividend	(6,00)	(6,000)
Retained profit	2,190	2,631.5

Statement of Financial Position as at 31 October

	2015		2016	
	Sh.'000	**Sh.'000**	**Sh.'000**	**Sh.'000**
Fixed assets:				
Freehold premises	10,500		10,500	
Plant and equipment	7,200		9,500	
Motor vehicles	5,350	23,050	7,300	27,300
Current assets:				
Stock	12,500		11,800	
Debtors	9,850		8,900	
Bank balance and cash in hand	5,950	28,300	5,864.5	26,564.5
Current liabilities:				
Creditors	8,350		7,830	
Taxation	3,510		5,413.5	
Dividend	3,000	(14,860)	3,000	(16,243.5)
		36,490		37,621
Ordinary share capital		30,000		30,000
Reserves		3,490		5,121
		33,490		35,121
15% loan		3,000		2,500
		36,490		37,621

Note:

1. 80% of the sales are no credit
2. The stock as at 31 October 2014 was valued at Sh.13,000,000

Required:

i) Calculate two ratios for each classification identified below for the financial years ended 31 October 2015 and 2016:

- (i) Profitability ratios (4 marks)
- (ii) Liquidity ratios (4 marks)
- (iii) Gearing ratios (4 marks)
- (iv) Activity ratios (4 marks)

ii) Comment on Deweto Ltd's profitability and liquidity positions. (4 marks)

b) Discuss any five parties that have interest in financial statement information and the purpose for that demand. (10 marks)

QUESTION TWO (20 MARKS)

Munyah Ltd. is an expanding company and the following accounts relate to its operations for the years 2015 and 2016:

Profit statement for the year ended 30 June

	2015	2016
	Sh.	Sh.
Sales	3,000,000	4,800,000
Less: cost of goods sold	1,650,000	2,700,000
Gross profit	1,150,000	2,100,000
Less: trading expenses	675,000	825,000
Trading profit	675,000	1,275,000
Less: Debenture interest	37,500	37,500
Net profit before taxation	637,500	1,275,000
Less: Corporation tax	240,000	480,000
Net profit after taxation	397,500	757,500
Less: Ordinary share dividend	187,500	262,500
Undistributed profit for the year	210,000	495,000

Balance sheet as at 30 June	**2015**		**2016**	
	Sh.	Sh.	Sh.	Sh.
Fixed assets at cost	1,500,000		2,100,000	
Less: Depreciation	300,000	1,200,000	375,000	1,725,000
Current assets:				
Stock	600,000		825,000	
Debtors	375,000		525,000	
Cash	120,000		1,350,000	
Less: current liabilities		1,095,000		
Creditors	217,500		300,000	
Taxation	240,000		480,000	
Proposed dividend	187,500		262,500	
Bank overdraft	______		97,500	
		(645,000)		(1,140,000)
		1,650,000		1,935,000
Financed by:				
Ordinary share capital (Authorised and issued)		750,000		750,000
Undistributed profits		525,000		1,020,000
10% debentures		375,000		165,000
		1,650,000		1,935,000

Required:

a) Prepare a comparative income statement. (10 marks)

b) Prepare a comparative Balance sheet. (10 marks)

QUESTION THREE (20 MARKS)

Consider the following Riker Electronics Corporation Balance Sheet (in thousands)

	2013	2014	2015	2016
	Shs "000"	**Shs "000"**	**Shs "000"**	**Shs "000"**
Assets				
Cash	2,507	4,749	11,310	19,648
Accounts receivable	70,360	72,934	85,147	118,415
Inventory	77,380	86,100	91,378	118,563
Other current assets	6,316	5,637	6,082	5,891
Current assets	156,563	169,420	193,917	262,517
Fixed assets, net	79,187	91,868	94,652	115,461
Other long-term assets	4,695	5,017	5,899	5,491
Total assets	240,445	266,305	294,468	383,469
Liabilities & shareholders' equity				
Accounts payable	35,661	31,857	37,460	62,725
Notes payable	20,501	25,623	14,680	17,298
Other current liabilities	11,054	7,330	8,132	15,741
Current liabilities	67,216	64,810	60,272	95,764
Long-term debt	88 979	1,276	1,917	
Total liabilities	68,104	65,789	61,548	97,681
Preferred stock	0	0	0	2,088
Common stock	12,650	25,649	26,038	26,450
Additional paid-in capital	36,134	33,297	45,883	63,049
Retained earnings	123,557	141,570	160,999	194,201
Shareholder's equity	172,341	200,516	232,920	285,788
Total liabilities & equity	240,445	266,305	294,468	383,469

Required

Prepare Riker Electronics corporation common size balance sheet for the period 2013 to 2016

(20 marks)

QUESTION FOUR (20 MARKS)

a) Briefly describe the following terminologies:

i)	Operating Lease	(3 marks)
ii)	Finance Lease	(4 marks)
iii)	Sales-Type Lease	(3 marks)

b) Discuss the advantages and disadvantages of leasing an asset. (10 marks)

QUESTION FIVE (20 MARKS)

Kitui traders balance sheets show the followings;

	2013	2014	2015	2016
	Sh.	Sh.	Sh.	Sh.
Cash	32,625	30,800	36,800	40,250
Accounts receivables	88,500	62,500	49,200	100,000
Merchandise inventory	111,500	82,500	53,000	50,000
Prepaid expenses	9,700	9,375	4,000	5,000
Plant assets (net)	277,500	255,000	229,500	320,000
	518,000	445,000	372,500	525,250
Financed by				
Accounts payable	128,900	75,250	49,250	56,000
Long-term debts	97,500	102,500	82,500	120,000
Ordinary shares	162,500	104,730	78,250	155,250
Retained earnings	129,100	104,730	78,250	155,250
	518,000	445,000	372,500	525,250

Required

a) Calculate the trend percentage for the company taking 2014 as the base year & interpret the results. (10 marks)

b) Discuss the importance and limitations of financial statement analysis. (10 marks)