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**University Examinations 2015/2016**

THIRD YEAR, FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE AND FOURTH YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

**BFC 3330: FINANCIAL STATEMENT ANALYSIS**

**DATE: AUGUST, 2016 TIME: HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two*** *questions*

**QUESTION ONE (30 MARKS)**

1. Explain importance of Ratio analysis. (5 Marks)
2. Explain three main principle financial statement prepared by business organization(6 Marks)
3. Explain the importance of financial statement to various users. (5 Marks)
4. Give two objectives of financial analysis. (4 Marks)
5. Discuss two techniques (tools or methods) of analysis and interpretation of financial statements. (4 Marks)
6. Explain limitations of financial statement. (6 Marks)

**QUESTION TWO (20 MARKS)**

a) Explain the advantages of vertical analysis of financial statements. (10 Marks)

b) Explain reasons and importance of segmented analysis. (5 Marks)

c) Unregulated segmented reporting is commercially dangerous to companies making disclosures. Discuss. (5 Marks)

**QUESTION THREE (20 MARKS)**

a) Differentiate between absolute and percentage change. (6 Marks)

b) Differentiate between horizontal and vertical analysis. (14 Marks)

**QUESTION FOUR (20 MARKS)**

Allen Company and Barket Company are competitors in the same industry. Selected financial data from their 2011 statement follows;

Balance Sheet

31 December 2011

Allen Company Barker Company

Cash sh 10,000 Sh. 35,000

Account Receivable 45,000 120,000

Inventory 70,000 190,000

Investment 40,000 100,000

Intangible 11,000 20,000

Property, plant & Equipment 180,000 520,000

356,000 985,000

Account payable Sh 60,000 Sh 165,000

Bonds Payable 100,000 410000

Preferred stock par 50,000 30,000

Common stock sh 10 par 100,000 280,000

Retained earning 46,000 100,000

356,000 985,000

Income Statement for the year ended December 31st 2011

Allen Co. Barker Co.

Sales Sh 1,050,000 Sh 2,800,000

Cost of goods sold 725,000 2,050,000

Selling and Administration Expense 230,000 580,000

Interest Expenses 10,000 32,000

Income tax 42,000 65,000

Net Income 43,000 73,000

Industry Averages

Times interest earned 7.2 times

Debt ratio 40.3%

Debt Equity ratio 66.6%

Debt to tangible networth 72.7%

Required;

a) Compute the following ratios for each company;

1. Times interest earned
2. Debt ratio
3. Debt Equity ratio
4. Debt to tangible net worth (12 Marks)

b) Is Barker Company in a position to take an additional long term debts? Explain(4 Marks)

c) Which company has a better long term debt position? (4 Marks)

**QUESTION FIVE (20 MARKS)**

Explain the following terms as used in trend analysis and multivariate analysis; (20 Marks)

1. Horizontal analysis between the two periods
2. Trend analysis over a series of period
3. Historical summaries
4. Vertical analysis- common size statement
5. Mulitivariate analysis –Z – score
6. H score
7. A score
8. Shareholders score card
9. Balance scorecard
10. Valuing shares of unquoted company