MURANG'A UNIVERSITY COLLEGE OF TECHNOLOGY
2014/2015 ACADEMIC YEAR
THIRD YEAR, FIRST SEMESTER SPECIAL/SUPPLEMENTARY EXAMINATION FOR THE BACHELOR OF COMMERCE (BCOM)
MAIN CAMPUS

HBF 2303: FINANCIAL STATEMENTS ANALYSIS **7TH AUGUST 2015**
TIME: 2 HOURS

INSTRUCTIONS: Answer question **ONE** and any other **TWO** questions
TIME: 2 HOURS.

QUESTION ONE

The following data relates to Prism traders limited for the year ended 31st December, 2012.

	Shs
Cash and marketable securities	100,000
Fixed Assets	283,500
Sales	1,000,000
Net Income	50,000
Quick Ratio	2:1
Current Ratio	3:1
Average Collection Period	40 days
Return on Equity	12%

You are informed that Prism traders have no Preferred stocks, they finance their projects by use of Common Equity, Current Liabilities and Long term debts. Basing all your calculations on a 360-days calendar year:

(a) Calculate:
- (i) Accounts receivables (2 marks)
- (ii) Current Liabilities (2 marks)
- (iii) Current Assets (2 marks)
- (iv) Return on Assets (2 marks)
- (v) Common Equity (2 marks)
- (vi) Long-Term Debt (2 marks)

(b) (i)Suppose that in the next trading period Prism Traders reduce their Average Collection Period from 40 days to 30 days. If all the other variables remain unchanged, how much cash would be generated? (4 marks)

(ii)If the stock generated in (i) above was to be used to buy back common stock at book value, how would this affect the return on equity? (6 marks)

(c) Explain the Limitations of ratio analysis as a tool of evaluating financial Statements. (8 marks)

QUESTION TWO

a) The data below relates from the books of Jesmid grills limited for the year ending 30 June ,2009:

	Shs.
Equity	2,280,000
Long –term debt	1,520,000
Current Liabilities	600,000
Fixed Assets	3,600,000
Current Assets	800,000
Retained Earnings	100,000
Dividends Issued	100,000
Cost of Sales	800,000
Sales	1,000,000

Additional Information:

i. Jesmid grills expects the Dividend Payout ratio , and the proportion of Cost of sales to sales to remain at the current rates

ii. A projected 20% increase in sales is expected.

Required:

Prepare a pro-forma income statement and a balance sheet based on the above forecasts. Are there additional Funds needed? Show all workings. (6 marks)

(b) Explain ways in which a Firm can use the Du – Pont system to analyze ways of improving its performance. (6 marks)

(c) What is financial forecasting? Briefly explain the importance of this exercise to a firm.

(8 marks)

QUESTION THREE

The following data relates to Multo Ltd for the year 2004 to 2007:

	2004	**2005**	**2006**	**2007**
Net sales	200,000	190,000	249,000	260,000
Less: Cost of goods sold	120,000	117,800	139,200	145,600
Gross profit	80,000	72,000	100,800	114,400
Less: Expenses	20,000	19,400	22,000	24,000
Net profit	60,000	52,800	78,800	90,400

Required:

a) Using 2004 as base year Calculate trend percentages and interpret the results (4 marks)
b) Explain FOUR anomalies of the Efficient market Hypothesis (8 marks)
c) Discuss the market forces that are in operation within the reporting environment that affects the Firms' level of disclosure. (8 marks)

QUESTION FOUR

(a) "The information contained in an annual report is often used by investors to help form expectations about future earnings" What FOUR financial statements typically included in the annual report? Briefly describe the information provided by each of these statements. (12 marks)

(b) Explain why companies carry out capital reconstruction scheme. (8marks)

QUESTION FIVE

(a) The following statements relates to Shida LTD for the period ended 30th September, 2011.

Statement of Financial Position for year ending 30th September, 2011

Non-current Assets	**shs'000'**	**shs'000'**
Land	1000	
Plant	5,000	
Equipment	8,000	**14,000**
Current Assets		
Inventories/stock	4,000	
Accounts receivable/debtors	3,000	
Cash	400	**7400**
Total assets		**21,400**
Capital and liabilities		
Preference share capital	1,000	
Ordinary share capital	1,000	
Paid in capital in excess	2,000	
Retained earnings	1,400	**5,400**
Non-Current liabilities		
Mortgage	4,000	
Debentures	6,000	**10,000**
Current liabilities		
Accounts payable	5,000	
Notes payable	1,000	**6,000**
		21,400

Income Statement

	'shs000'
Sales	6,000
Cost of sales	(3,500)

Selling and administration expenses	(1,000)
EBIT	1,500
Interest	(1,100)
EBT	400
Tax 30%	120
PAT/EAT	**280**

Required

a) Predict the company's failure using Altman's Z-Score and interpret its meaning (10 mks)

(b) Explain FIVE options in dealing with financial distress in the corporate sector (10 marks)

DEDAN KIMATHI UNIVERSITY OF TECHNOLOGY

BACHELOR OF COMMERCE

COURSE OUTLINE HBC 2220: FINANCIAL STATEMENT ANALYSIS

Course objectives:

This course uses accounting information to predict various aspect of the firm, mainly profitability and solvency so as to make appropriate decision. The course is therefore intended to achieve the following:

- Explain the importance of financial statement analysis
- Apply various techniques to conduct Financial statement analysis
- Make financial forecasting so as to make appropriate decision
- Carry out Corporate Distress analysis

Course Content

1**. Nature and purpose of financial statement analysis**

- Primary Types of Financial statements
- Other Components of Financial Statement
- Users of Financial Statements
- Purposes/Objectives of Financial Statement Analysis
- Sources of Information for FSA

2. Framework of financial statement analysis

- Issues in financial statement analysis
- Manipulation of Financial Statement
- Limitations of Financial Statement Analysis

3. Types of financial statement analysis

- Horizontal analysis
- Vertical analysis
- Time series analysis
- Cross-sectional analysis

4. Techniques of financial statement analysis

- Ration analysis
- Du Pont systems analysis
- Economic value added analysis (eva**)**

5. Capital markets and corporate information releases

- Efficient Market Hypothesis
- Causes of market inefficiency
- Efficient market hypothesis
- Implications of efficient Market Hypothesis

6. Financial forecasting

- Steps in financial forecasting plan
- Performing financial forecasting
- Types of financial forecasts
- Financial forecasting models

7. Corporate financial distress

- forms of financial distress

- models used to predicting corporate
- cost of financial distress
- causes of business failure
- effects of financial distress

<u>Reference Texts /Instructional Material</u>

1. Wild J., et al, Financial Statement Analysis, McGraw Hill, 7th Edition, 2001
2. Ross,Westerfield and Jaffe, Corporate Finance, McGraw-Hill Irwin 9th Edition, 2010
3. Pandey I M, Financial Management, 9th Edition Vikas publishing house 2004
4. Revsine L, et al, Financial Reporting and Analysis, McGraw-Hill/Irwin 4th Edition 2008
5. Jain S.J and Narang K.L', Advanced Accountancy ,latest edition

Financial Regulatory authorities websites

Course Evaluation

Cats assignments and presentation ………………………………..… 30%
End term Exam……………………………............ .... 70%
Total……………………………………………………..........................100%