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**University Examinations 2015/2016**

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

AND

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

**BFC3330: FINANCIAL STATEMENT ANALYSIS**

**DATE: NOVEMBER 2015 TIME: 2 HOURS**

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

**QUESTION ONE (30 MARKS)**

1. Discuss the limitation of financial analysis (5 Marks)
2. An analyst examining BP PLC wishes to understand the factors driving the trend in ROE over a recent three year period. The analyst obtains the following data from the company and ascertains that it has included non-operating income in the interest burden factor:

**2004 2003 2002**

ROE 20.62% 14.42% 10.17%

Tax burden 64.88% 62.52% 60.67

Interest burden 130.54% 112.60% 130.50%

EBIT margin 6.51% 6.40% 4.84%

Asset turnover 1.55 1.38 1.19

Leverage 2.42 2.32 2.24

What might the analyst conclude? (5 Marks)

1. Explain the options available to corporate sector in dealing with financial distress (10 Marks)
2. The following data relates to Faini bank for the year 1999 to 2003

**Year 1999 2000 2001 2002 2003**

**Kshs. Kshs Kshs Kshs Kshs**

Total Assets 129, 503 189, 553 212, 901 266, 356 320, 578

Earnings Before 5, 950 9, 274 10, 007 8, 141 10, 428

Interest and Tax

Working Capital 4, 886 6, 828 9, 583 9, 731 16, 423

Retained Earnings 7, 642 8, 721 9, 223 10, 264 15, 531

Equity 11, 307 14, 519 17, 093 17, 747 25, 041

Book Debt 118, 196 166, 034 195, 808 248, 609 341, 900

Gross Earnings 17, 767 26, 856 29, 098 41, 717 51, 318

**Required:**

Predict the Bank’s failure using Altman’s Z-Score and interpret its meaning (10 Marks)

**QUESTION TWO (20 MARKS)**

1. Explain the limitations of cross sectional financial statement analysis (10 Marks)
2. The following information relates to the business segments of Nokia for 2004 in millions of billions of shillings.

**Revenue Operating Profit Segment Assets**

Mobile Phone 18, 429 3, 768 3, 758

Multimedia 3, 636 179 787

Enterprises Solutions 806 -199 210

Networks 6, 367 878 3, 055

**Required:**

Evaluate the performance of the segments using the segment margin, segment ROA, and segment turnover. (10 Marks)

**QUESTION THREE (20 MARKS)**

1. Discuss the advantages of ration analysis in business (8 Marks)
2. During 2012, Uzi Corp. reported net income of Kshs.115, 600 and had 200, 000 shares of common stock outstanding for the entire year. Uzi also had 1, 000 shares of 10%, $100 par, preferred stock outstanding during 2012. During 2011, Uzi issued 600, Kshs1, 000 par, 7% bonds for Kshs.600, 000 (issued at par). Each of these bonds is convertible to 100 shares of common stock. The tax rate is 40%.

**Required:**

1. Compute the 2012 basic and diluted EPS (12 Marks)

**QUESTION FOUR (20 MARKS)**

1. The table below present the income statements for Company A, Company, Company B and Company C. All three companies are involved in the same industry.

Income Statement in millions

**Company A Company B Company c**

Revenue Kshs.1000 Kshs.5, 0000 Kshs.5, 000

COGS 400 2, 500 2, 000

Gross profit 600 2, 500 3, 000

SG&A 150 750 750

Production R&D 100 250 500

Operating profit 350 1, 500 1, 750

Interest expense 50 250 250

Pre-tax income 300 1, 250 1, 500

Income taxes 120 500 600

Net income $180 $750 $900

Evaluate the financial performance of the three firms using common size financial analysis and comment on your results (14 Marks)

1. Explain the importance of Du-Pont system in analyzing financial performance.(6 Marks)

**QUESTION FIVE (20 MARKS)**

1. Explain the importance of forecasting in business (6 Marks)
2. Explain the differences between comparative and common size financial statement analysis. (4 Marks)
3. Explain the factors that increases the probability of earnings manipulation (10 Marks)