



KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2018/2019 ACADEMIC YEAR

THIRD YEAR SECOND SEMESTER

MAIN/SPECIAL/SUPPLEMENTARY EXAMINATION

**FOR THE DEGREE OF BACHELOR OF COMMERCE/BACHELOR OF BUSINESS
MANAGEMENT**

COURSE CODE: BCF 325/BBF 322

COURSE TITLE: FINANCIAL STATEMENT ANALYSIS

DATE: 05/09/2019

TIME: 3.00 P.M

INSTRUCTIONS TO CANDIDATES

Answer Question One in Section A and Any other TWO (2) Questions in Section B

TIME: 2 HOURS

KIBU observes ZERO tolerance to examination cheating

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SECTION A

QUESTION ONE (COMPULSORY)

- a) Accounting information is produced in terms of financial statements. This information aids the decision making process to various interested parties. Discuss five users of accounting information. (10marks)
- b) Ratio analysis is a vital tool for financial analysis discuss five objectives that ratio analysis fulfils (5marks)
- c) Discuss five objectives of financial statement analysis (5marks)
- d) Highlight five importance of common size analysis (5marks)
- e) Explain ways in which common size income statement can be prepared (5marks)

SECTION B

QUESTION TWO

The following Financial statement has been extracted from the books of ABC Ltd and XYZ Ltd for the year ended 31/12/2005.

Balance sheet as at 31/12/2005

	Ksh. "000"	Ksh."000"
Assets	ABC LTD	XYZ LTD
Cash and marketable securities	21.2	216.5
Debtors	37.63	285.78
Inventories	112.89	298.77
Other current assets	6.36	97.26
Plant property and equipment	340.26	3,204.20
Other assets	11.66	229.49
Total assets	530.00	4,330.00

Liabilities and Equity		
Accounts payable	84.27	329.08
Other current liabilities	53.00	394.03
Long-term debt	95.40	961.26
Preferred credit	58.30	571.56
Preference shareholders	-	307.43
Shareholders' equity	293.03	1,766.64
Total Liabilities and Equity	530.00	4,330.00

Income statement for the year ended 31/12/2005

	Ksh."000"	Ksh."000"
Revenues	ABC LTD	XYZ LTD
Sales	1,325.99	6,657.658
Other revenues	8.004	13.342
Expenses and Net Income		
Excise taxes	174.754	620.403
Cost of goods sold	823.078	4,116.007
Administrative expenses	220.110	1,220.793
Interest expense	9.388	80.052
Other expenses	-	20.013
Current taxes	29.348	133.420
Deferred taxes	20.010	133.420
Net income	57.362	346.892
	1,334.00	6,671.000

Required:

- a) Prepare common size statements for both companies (15marks)
- b) Comment on the performance of both companies (5marks)

QUESTION THREE

- a) You are provided with extracts from the financial statements of ABC Ltd for the year ended 31st December 2011.

ABC Ltd
Statement of Financial Position

	Kshs.
Net equipment	1,610,000
Cash	480,000
Debtors	650,000
Stock	2,080,000
	4,820,000
Long term debt (10%)	1,610,000
Shareholders' equity	1,500,000
Trade creditors	870,000
Notes payable (9%)-short term	840,000
	4,820,000

Statement of incomes

	Kshs.
Sales	6,100,000
Less: cost of sales	3,600,000
Gross profit	2,500,000
Less: expenses	
Selling expenses	650,000
Administration expenses	1,120,000
Interest charge	235,600
	2,005,600
Profit before tax	494,400
Taxation	177,760
Net profit	316,640

Additional Information:

- i. The market price per share of ABC Ltd is kshs. 5, Par value kshs. 1
- ii. Retained earnings are kshs. 467,640
- iii. Shareholders equity comprises only of share capital and retained earnings

Required:

Calculate the Altman Z-score for ABC Ltd and interpret it

(15marks)