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**KARATINA UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**2021/2022 ACADEMIC YEAR**

**SECOND** YEAR **FIRST** SEMESTER EXAMINATION

**BACHELOR OF BUSINESS MANAGEMENT**

**&**

**BACHELOR OF EDUCATION (ARTS)**

**COURSE CODE: BBM 419**

**COURSE TITLE: FINANCIAL STATEMENTS ANALYSIS**

**DATE: 22RD FEBRUARY, 2022 TIME: 8AM-12PM**

**INSTRUCTIONS**

Answer Question *ONE* and any *OTHER THREE* Questions.

**Question One;**

(a) List **four** limitations of ratio analysis (4 marks)

(b)I ndicate any **four** users of financial statements and indicate the ratios that they would be interested in. (8 marks)

(c) Explain the importance of the following;

(i) Common-Size Statements (2 Marks)

(ii) Common based year Financial Statement (2 Marks)

(d) Consider the following three Final statements from company as at December 31,for the years 2012,2013 ,and 2014 respectively.

STATEMENT OF AFFAIRS

AS AT DECEMBER 31

2017 2018 2019

Sh.”000” Sh.”000” Sh.”000”

Fixed Assets;

Building, Plant and Machinery 21,120 3,861 8,726

Investment 1,662 171 931

Other Assets 3,002 239 8195

25,784 4,271 17,852

Current Assets

Inventories 3,969 1,233 2,712

Accounts receivables 5,213 1,629 4,458

Cash 1,109 1,759 1,134

Prepaid expenses 259 112 -

Total Assets 36,334 9,004 26,156

Capital 15,179 4,293 11,144

Retained Earnings 12,406 2,443 7,133

Preferred Stock 237 589 3,322

27,822 7,325 21,599

Current Liabilities

Creditors 6,811 1,077 2,562

Overdraft 1,292 369 1,275

Taxes Payable 409 233 720

8,512 1,679 4,557

Total Equity and Liabilities 36,334 9,004 26,156

INCOME STATEMENTS

FOR THE YEAR ENDED DECEMBER 31

2012 2013 2014

Sh.”000” Sh.”000” Sh.”000”

Sales 39,333 9,189 20,015

Less Cost of Sales (24,953) (6,502) (13,219)

Selling and Administrative expenses (2,888) (6,502) (3,061)

Research & Dev. (1047) (184) (1,261)

Interest expenses (559) (186) (537)

Other expenses (6,572) ( 39) ( 229)

Income before Taxes 3,314 273 1,708

Less Appropriation;

Taxes (1,655) (164) (779)

Dividend Proposed (335) (56) (279)

Net income 1,324 53 650

Required

1. Using year 2012 as the base year prepare standardized Statements for the three years

(6 Marks)

1. Comment on the trend on any **Three** items in the Final statements (3 Marks)

**Total;25 Marks**

**Question Two**

(a) List down some of the problems associated with the financial Statement Analysis. (5 Marks)

(b)Indicate the importance of each of the following ratios;

(i) Times interest earned ratio

(ii)Cash Coverage ratio

(iii)Price Earnings ratio (6 Marks)

(c)Differentiate between Common size financial statements and Common Based year financial statements, (4 Marks)

**(Total: 15 marks)**

**Question Three**

1. Identify factors that affect the application of ratios (5 Marks)
2. Explain two non-cash expenses and explain how they are treated in determining Cash-flows (4 Marks)
3. Discuss the importance of the Peer group Analysis in the analysis of Financial Statements (6 Marks)

**(Total: 15 marks)**

**Question Four**

(a)(i) Indicate the importance of the Du-Pont Identity in the analysis of financial Statements (6 Marks)

(ii) Explain any three Identities that are popularly applied in this area (6 Marks)

(b)Discuss factors to be Considered when Bench Marking in Financial Statement Analysis (3 Marks)

**(Total: 15 marks)**

**Question Five**

The following financial statements were extracted from the books of Undugu Ltd. For the years ended 31 December 2013 and 2014:

Income statement for the years ended 31 December;

2013 2014

Sh. “000” Sh. “000”

Sales (all on credit) 200,000 200,000

Cost of sales (120,000) (100,000)

Gross Profit 80,000 100,000

Expenses (including interest sh.10,000 p.a) ( 43,000) (43,000)

Depreciation expenses (10,000) (10,000)

Tax expenses (7,000) (17,000)

Net profit 20,000 40,000

Dividends (20,000) (20,000)

Retained profits - 20,000

Balance brought forward 25,000 25,000

Balance carried forward 25,000 45,000

Statements of financial position as at 31 December:

2013 2014

Sh. “000” Sh. “000”

Non-current assets:

Land 63,000 44,000

Plant and machinery at cost 6,000 8,500

Building at cost 79,000 60,000

Investments at cost 80,000 53,000

228,000 165,500

Current assets

Inventory 65,000 55,000

Trade receivables 50,000 40,000

115,000 95,000

Current liabilities

Trade payables 60,000 40,000

Proposed Dividend 20,000 20,000

Bank balance 4,000 2,500

(84,000) (62,500)

Net current assets 31,000 32,500

259,000 198,000

Financed by:

Ordinary share capital 50,000 40,000

Share premium 14,000 13,000

Revaluation reserve 20,000 -

Revenue reserve 25,000 45,000

10% debentures 150,000 100,000

259,000 198,000

Additional information :

1.Ordinary shares with a nominal value of sh.10,000,000 were repurchased at a premium during the year 2014.All the necessary approvals were obtained for this transaction.

2.Part of the debentures were redeemed at par during the year.

**Required** :

Compute the following ratios for Undugu Ltd. for the years ended 31 December 2013 and 2014:

1. Net profit margin (v) Times interest earned ratio.
2. Trade receivables turn over (vi)Return on capital employed
3. Dividend cover (vii)Sales to assets
4. Cash coverage ratio (viii) Interval measure ratio

**(Total: 15 marks)**