

GRETTA UNIVERSITY - THIKA

**UNIVERSITY EXAMINATIONS
MAY - AUGUST 2023 SEMESTER**

BACHELOR OF COMMERCE

COURSE CODE: BCFI303

COURSE TITLE: FINANCIAL STATEMENT ANALYSIS

DATE:

TIME:

INSTRUCTIONS TO CANDIDATES

1. SECTION A IS **COMPULSORY**.
2. SECTION B: ANSWER ANY OTHER **THREE** QUESTIONS.
3. **DO NOT** WRITE ANYTHING ON THIS QUESTION PAPER AS IT WILL BE AN EXAM IRREGULARITY.
4. ALL ROUGH WORK SHOULD BE AT THE BACK OF YOUR ANSWER BOOKLET AND CROSSED OUT.

CAUTION: All exam rooms are under CCTV surveillance during the examination period.

SECTION A: COMPULSORY

Question One

- a) The aim of analyzing financial statements is to decipher financial information contained in the financial statements in order to provide clear, concise and comparable information to various users of accounting information. Explain the different users of accounting information. **(10 marks)**
- b) Ratios can be broadly classified into the following 5 categories. Explain two types of ratios in each of the below categories
- i. Liquidity ratios **(2 marks)**
 - ii. Turnover ratios **(2 marks)**
 - iii. Gearing ratios **(2 marks)**
 - iv. Profitability ratios **(2 marks)**
 - v. Growth and valuation ratios **(2 marks)**
- c) The following financial statements for two furniture stores and then answer the questions which follow.

Financial Statements

	X		Y	
Profit and loss accounts				
Sales		555,000		750,000
Less Cost of goods sold				
Opening stock	100,000		80,000	
Add Purchases	<u>200,000</u>		<u>320,000</u>	
	300,000		400,000	
Less Closing stock	<u>(60,000)</u>	<u>(240,000)</u>	<u>(70,000)</u>	<u>(330,000)</u>
Gross profit		315,000		420,000
Less: Depreciation	5,000		15,000	
Wages and salaries	165,000		220,000	
Other expenses	<u>45,000</u>	<u>(215,000)</u>	<u>35,000</u>	<u>(270,000)</u>
Net profit		<u>100,000</u>		<u>150,000</u>

X

Y

Balance sheets

Fixed assets

Equipment at cost	50,000		100,000	
Less Depreciation to date	(40,000)	10,000	(30,000)	70,000

Current assets

Stock	60,000		70,000	
Debtors	125,000		100,000	
Bank	<u>25,000</u>		<u>12,500</u>	
	210,000		182,500	

Less Current liabilities

Creditors	<u>(104,000)</u>	<u>106,000</u>	<u>(100,500)</u>	<u>82,000</u>
		<u>116,000</u>		<u>152,000</u>

Financed by:

Capitals

Balance at start of year		76,000		72,000
Add Net profit		<u>100,000</u>		<u>150,000</u>
		176,000		222,000
Less Drawings		<u>(60,000)</u>		<u>(70,000)</u>
		<u>116,000</u>		<u>152,000</u>

Required:

a) Calculate the following ratios for each business:

- i. Gross profit as percentage of sales; **(2 marks)**
- ii. Stock turnover; **(2 marks)**
- iii. Current ratio; **(2 marks)**
- iv. Acid test ratio; **(2 marks)**
- v. Debtor/sales ratio; **(2 marks)**

b) Drawing upon all your knowledge of accounting, comment upon the differences and similarities of the accounting ratios for A and B. Which business seems to be the most efficient? Give possible reasons. **(10 marks)**

SECTION B: ANSWER ANY THREE QUESTIONS

Question Two

- a) Financial statement reporting is the process of reviewing, analyzing and interpreting financial reports. Explain four qualities of useful financial reporting. **(8 marks)**
- b) Explain the various stages in budgeting process. **(12 marks)**
- c)

Question three

- a) Discuss the Disadvantages of the sales growth model **[10 marks]**
- b) What are the limitations of ratios as a base for comparing performances between companies? **[10 marks]**

Question Four

- a) Explain the four techniques of financial analysis. **[8 marks]**
- b) Discuss the limitations of Altman Bankruptcy model **[12 marks]**

Question five

XYZ Company The total sales for Banda Limited is Kes. 24,000,000 the year ending 31.05.2023. The company has established that assets and liabilities vary in the following fixed proportions to the sales levels at any point in time.

Current Assets
 Net Fixed
 Assets
 Creditors
 Accruals

The proportions to sales are maintained throughout the forecast annual growth rate in sales has been established at 25%. Income statement items have also been established to vary directly proportionate to the level of sales. Cost of sales and administration expenses comprise 40% and 15% of the sales level respectively. On the other hand, selling and distribution expenses comprise 10% of the sales level while operating expenses have been established at 15% of the sales level. The company has a 100% dividend retention ratio policy and suffers a corporate tax rate of 40% on the earnings before tax

As at 31.05.2023, the company's capital structure appeared as follows;

Share Capital	8,800,000
Long term Liabilities	4,400,000
Retained Earnings	2,400,000
Notes payable	1,200,000

Required:

- a) Prepare pro- forma income statement for the three years respectively **[5 marks]**
- b) Pro-forma cash flow statement for the three years respectively **[5 marks]**
- c) Pro-forma balance sheet for the three years respectively **[5 marks]**
- d) Discuss the financial status of the company in 31 May 2025 **[5 marks]**