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**University Examinations 2016/2017**

THIRD YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR

OF COMMERCE

FOURTH YEAR SECOND SEMESTER BACHELOR OF COMMERCE

**BFC3330: FINANCIAL STATEMENT ANALYSIS**

**DATE: DECEMBER 2016 TIME: 2HOURS**

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

**QUESTION ONE (30 MARKS)**

1. Financial statement information is essential for every organization. Discuss the need for the financial analysis (4 marks)
2. The directors of Mega ltd wanted to invest in ABC limited company. Mary who is a financial analyst was tasked to do the financial analysis of the company. Discuss the essential features of financial analysis and explain the limitations of ratio analysis

(10 marks)

1. Discuss the cash flow statements and explain the main differences between cash flow statement and fund flow statement (6 marks)
2. Write short notes on the following terms as used in financial statements analysis
3. Degree of operating leverage (3 marks)
4. Degree of financial gearing (3 marks)
5. Percentage of sales forecasting (2 marks)
6. Common size statement analysis (2 marks)

**QUESTION TWO (20 MARKS)**

1. Explain the importance of time series analysis (5 marks)
2. The following information relates to Daniel’s investment

Year production (Tones) year production (Tones)

2000 651 2009 800

2001 666 2010 818

2002 661 2011 755

2003 662 2012 802

2004 700 2013 840

2005 719 2014 857

2006 710 2015 871

2007 720 2016 886

2008 850 2017 912

Required:

Using the method of moving average of 4 and 6 year period calculate the trend values

(15 marks)

**QUESTION THREE (20 MARKS)**

1. Discuss in detail the main users of financial statement and what financial statement information is (8 marks)
2. The following information relates to the income statement of Kamau’s limited as at 30th June 2015

Particulars 2013 2014 2015

“shs. 000” “shs. 000” “shs. 000”

Net sales 1840 1660 1500

Cost of goods sold 1550 1422 1324

Gross profit 1390 1338 1176

Operating expenses 1346 199` 174

Net operating profit 164 1149 1202

Interest expenses 18 15.5 14.5

Profit before tax 188 195.5 159.5

Provision for taxes 155 155 134

Profit after tax 143 130 125.5

**Required:**

Prepare a common size income statement and make a brief comment (12 marks)

**QUESTION FOUR (20 MARKS)**

Temo Hardware Tools Company Limited sells plumbing fixture on terms of 2/10 net 30. Its financial statements for the last three years are as follows:

2013 2014 2015

Sh sh sh

Cash

Accounts receivable 30,000 20,000 5,000

Inventory 200,000 260,000 290,000

Net fixed assets 400,000 480,000 600,000

1,430,000 1,560,000 1,695,000

Accounts payable 230,000 300,000 380,000

Accruals 200,000 210,000 225,000

Bank loan, short-term 100,000 100,000 100,000

Long-term debt 300,000 300,000 300,000

Common stock 100,000 100,000 100,000

Retained earnings 500,000 550,000 550,000

1,430,000 1,560,000 1,695,000

Additional information

Sales 4,000,000 4,300,000 3,800,000

Cost of goods sold 3,200,000 3,600,000 3,300,000

Net profit 300,000 200,000 100,000

**Required:**

1. For each of the three years, calculate the following ratios
2. Acid test ratio (3marks)
3. Average collection period (3marks)
4. Inventory turnover (3marks)
5. Total debt/equity (3marks)
6. Net profit margin (3marks)
7. Return on assets (3marks)
8. Comment on the liquidity and profitability of the firm (2marks)

**QUESTION FIVE (20 MARKS)**

1. Discuss the tools which are commonly used for analyzing and interpreting financial statements (12 marks)
2. From the following data relating to Ms Maria for the years 2013 to 2016. Calculate trend percentages (taking 2013 as base year) for 2013,2014,2015 and 2016

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | 2013 | 2014 | 2015 | 2016 |
| 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 | 100,000 | 114,400 |
| Less expenses | 20,000 | 19,400 | 22,000 | 24,000 |
| Net profit | 60,000 | 52,800 | 78,800 | 90,400 |

(8marks)