TECHNICAL UNIVERSITY OF MOMBASA
Faculty of Business & Social Studies

DEPARTMENT OF BUSINESS STUDIES

UNIVERSITY EXAMINATIONS FOR
MASTERS OF SCIENCE IN FINANCE

BMF 5102: CORPORATE FINANCIAL REPORTING & ANALYSIS

END OF SEMESTER EXAMINATIONS
SERIES: APRIL 2015
TIME: 3 HOURS

INSTRUCTIONS:

- Attempt question **ONE (Compulsory)** and any other **THREE** questions
- Do not write on the question paper.

This paper consists of Eight printed pages

QUESTION 1 (Compulsory)

The details below relate to S Martha, a sole proprietor, for the year ended 30th June 2010

S. Martha
Profit & Loss Account for the period ended 30-06-2010

	Ksh.	Ksh.
Gross profit		139,940
Add: reduction on provision B/debts		170
		140,110
Less expenses:		
Motor vehicle expenses	8,110	
Wages & salaries	49,220	

General trading expenses	14,125	
Equipment running costs	16,040	
Loss on sale & equipment	560	
Depreciation: motor vehicle	3,090	
equipment	2,195	93,340
		46,770

Balance Sheet as at 30th June 2010

		2009		2010
Fixed assets:				
Vans at cost	22,510		22,510	
Less depreciation	7,080	12,755	10,170	5,500
Equipment at cost	37,150		20,100	
Less Depreciation to date	18,395	15,430		
		28,185		
Current Assets:				
Stock	28,970		32,005	
Debtors (less provision)	6,380		15,050	
Bank	9,050		28,225	
	54,340		75,280	
Less: Current liabilities				
Creditors	11,350	42,990	14,350	60,930
		71,175		78,760
Financed by:				
Capital:				
Opening balance b/d	38,340		49,990	
Add: Net profit	36,150		46,770	
	74,490		96,760	
Less drawings	24,500		28,000	
	49,990		68,760	
Loan for White	21,185	71,175	10,000	78,760

Debtors for 2009 = 17,000 – Provision of 680

2010 = 15,560 - Provision of 510

The equipment sold for sh. 4,000 during the year.

Required

Draw a cash flow statement for S Martha for the ended 30th June 2010.

(20 marks)

b) Briefly explain the following terms as used in consolidation:

i) Minority interest **(2 mark)**

ii) Associate company **(2 mark)**

iii) Parent company **(1 mark)**

QUESTION 2

a) The balance sheet of Pala Ltd and its subsidiaries Punda Ltd and Paka Ltd as at 30th April 2013 were as follows:

	Pala Ltd		**Punda Ltd**		**Paka Ltd**	
	Sh. 000	**Sh. 000**	**Sh. 000**	**Sh. 000**	**Sh. 000**	**Sh. 000**
Freehold property		5,174		2,715		-
Equipment (NBV)		3,754		590		63
Motor vehicles (NBV)		1,850		1,040		-
		10,778		4,345		
Subsidiary companies						
Shares at cost	3,264		85			
Loan A/C	-		76			
Current account	201	3,465	244	405		
Investment in bonds		1,600		2,800		
Current Assets:						
Stock	5,172		984		192	
Debtors	5,735		1,981		31	
Cash at hand & bank bal.	2,471		660		166	
	16,930		3,625		389	
Less current liabilities						
Creditors	5,172		1,747		12	
Due to Pala Ltd	-		197		4	
Due to Punda Ltd	-		-		320	
Taxation	1,501		230		-	
Unclaimed dividends	13		-		-	
Proposed dividends	1,600	8,640	-	1,451	-	53
		24,487		9,001		116
Financed by:						
Ordinary share capital:		8,000		80		240
General reserves		10,000		-		-
Profit & Loss A/C		6,487		8,921		(124)
		24,487		9,001		116

Additional information

Pala Ltd acquired 75% of the shares in Punda Ltd in 2000 when Credit balance on the profit and loss account was sh. 1,848,000 and no dividends had been paid since that date.

Punda had acquired all shares in Paka Ltd in 2012 when the balance on its Profit and Loss Account was a debit balance of sh. 117,000. Subsequently, sh. 800 was received by Paka Ltd and credited to its Profit and Loss Account representing a recovery bad debt which had been written off. During the year Punda Ltd had purchased 10,000 balls at a price of sh. 60 per ball (being cost plus 20%) of which 800 balls were in store at 30th April 2013. Groups policy is make a full provision for unrealized inter company profits.

Required:

i) Group profit & loss A/C **(4 marks)**

ii) Unrealized profit stock A/C **(4 marks)**

iii) Minority interest Account. **(6 marks)**

iv) Consolidated balance sheet **(8 marks)**

QUESTION 3

The following list of account and balance relate to Senyo Co. a public listed company as at 31-12-2011.

	Sh.	Sh.
Equity shares (issued at sh. 1 @)		100,000
10% loan note (Note 5)		30,000
Income surplus January 2011		23,440
Property plant & equipment – cost (Note)	216,740	
Cummulated Depreciation 01-01-2011		50,740
Trade receivables	25,500	
Trade payables		8,390
Lease rentals (Note 3)	800	
Sales revenue		247,450
Cost of sales	165,050	
Distribution costs	13,400	
Admn. Expenses (Note 2)	12,300	
Income tax (Note 4)	400	
Loan interest paid (Notes)	3,000	
Inventories 31 – Dec. 2011	16,240	
Cash & cash equivalent	6,590	
	460,020	**460,020**

The following notes were relevant

1. Property, plant & equipment and the accumulated depreciation as at 31-12-2011

	Land	Buildings	Plant
	Sh.	**Sh.**	**Sh.**
Cost	12,000	80,000	124,740
Depreciation	-	16,000	34,740

   The land and buildings were revalued at open market value on 1st January 2011 at sh. 120,000 in total. This was made up of sh. 20,000 attributed to the land and sh. 100,000 to the buildings the buildings, original estimated life of 50 years with no residual value has not changed forty years were remaining as at the date of revaluation. The directors wish to include the revalued amounts in the financial statement for the year ended 31.12.2011. Plant is depreciated at 15% on reducing balance.

2. The sales figure included sh. 20,000 worth of goods sold on "sale or return basis" in December 2011 with a profit mark-up of 25%. Goods sold on this basis are returnable within 3 months of sales.

3. A lease rental of sh. 800 was paid on 1st January 2011. It is the 1st of fine annual payments to advance for the rental of an item of equipment that has a cash price of sh. 3,000. The auditors have advised that this is a finance lease and that the finance charge should be allocated over the lease period using sum of the digits method the equipment should be depreciated over the lease period.
4. A provision for income tax for the year to 31-12-2011 of sh. 9,000 is required. Income tax is paid 6 months after the companys year end. A provision for income tax of sh. 6,800 made for the year ended 31-12-2010, was settled on 30th June 2011, for sh. 7,200.

5. The 10% loan note was issued on 1st January 2011 and is redeemable a 1st January 2014 for sh. 32,025 giving effective interest rate of 12% interest is payable in arrears and the liability is to be carried at amortized cost.

6. The directors paid interim dividends of 40 cents per share in December 2011 but have not been reflected to the ledgers.
7. Depreciation on plant, property and equipment is charged to cost of sales.

Required

a) Prepare an income statement for Sengo Co. for the year ended 31-12-2011. **(15 marks)**

b) Prepare a statement of financial position at 31-12-2011. All these should be incompliance with relevant International Financial Reporting Standards. **(10 marks)**

QUESTION 4

a) The opening cash balance on 1st January was Ksh. 130,000. The sales, which were all at a mark-up of 25% were budgeted as follows:

Month	**Sales sh.**
October	1,200,000
November	800,000
December	900,000
January	760,000
February	1,000,000
March	820,000

Analysis of records shows that debtors settle their obligations according to the following pattern

60% within the month of sales
25% the following month
10% the month following
5% are normally irrecoverable

- All purchases were a credit and the payment schedule was that 80% month after the month of sales & 20% two months later.
- All goods sold are acquired/purchased a month before.
- Wages were 55,000 per month and overheads of Ksh. 140,000 per month including sh. 55,000 depreciation) are settled monthly.
- Debts settled within month of sales qualify for 5% discounts to while credit settled one month after the month of purchase gets 3% discount.
- Taxation of sh. 58,000 was paid in February and the Company received a settlement of insurance claims amounting to sh. 250,000 in March.
- The company has a policy to maintain cash at hand of sh. 100,000 & maximum of sh. 200,000. Any shortfall is bridged by liquidating marketable securities and excess is invested in the same securities.

Required:
Prepare a cash budget for January February and March. **(15 marks)**

b) The condensed balance sheet for Pluto at 31-12-2006 was as follows:

Liabilities & equity	**Sh. 000**	**Assets**	**Sh. 000**
Notes payables	2,000	Current assets:	
Long-term 7% debenture	2,000	Cash	700
6% P. shares @ sh. 100	1,000	Receivables	1,000
Ordinary shares	1,800	Stock	800
Retained earnings	1,200	Fixed Assets	5,500
	8,000		**8,000**

The company decided to increase sales by 10% in 2007. The sales in 2006 were, sh. 40,800,000. To achieve this stock and debtors were to be increased by 20% and 15% respectively while fixed assets were to be increased by 20%. The additional finance was to be raised through ordinary shares. 30% preference shares 20%, debentures 25% and the balance from notes payable.

Required:
Prepare a schedule to show how much of the increased funding was to come from each source.

(10 marks)

QUESTION 5

a) Briefly explain how to manage a projected cash flow problems. **(5 marks)**

b) Briefly explain any five possible causes of financial distress in an organization. **(10 marks)**

c) The following financial statements relate to

ABC Company
Balance sheet as at 31-13-2011

Assets			**Liabilities & Equity**
Cash	28,500	Trade creditors	116,250
Debtors	270,000	Notes payables	54,000
Stock	649,500	Other C. Liabilities	100,500
Total C. Assets	948,000	10% debentures	300,000
Net F. Assets	285,750	Equity	663,000
	1,233,750		**1,233,750**

The income statement for the year ended 31-03-2011

	Sh.
Sales	1,972,500
Less cost of sales	1,368,000
Gross Profit	604,500
Selling & Admin. Expenses	498,750
EBIT	105,750
Less Int.	34,500
EBT	71,250
Less Tax	28,500
EA Tax	42,750

ABC Company operates in an industry whose norms are as follows:

	Norms
Inventory turnover	6.2 times
Times interest earned ratio	5.3 times
Total assets turnover	2.2 times
Net profit margin	3%

Required:

Calculate the company's ratio and compare them with industries.

(10 marks)