

TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

UNIT CODE: BFI 4310 UNIT TITLE FINANCIAL STATEMENT ANALYSIS

SERIES: FEB/MAY

TERM PAPER ONE

TIME: 2 HOURS

INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS.

QUESTION ONE

- a) Discuss the uses /Application and limitations of Ratios.(10Marks)
- b) One of the methods of financial forecasting is Percentage of Sales Method. You are required to discuss the assumptions based on this approach. (5marks)
- c) Mapato Industries limited

Income statement for the year ended 31 Dec 2015

	Shs
Sales	6,000,000
Cost of goods sold	(3,500,000)
Selling and administrative expenses	<u>(1,000,000)</u>
Earnings before interest and tax	1,500,000
Interest	<u>(1,100,000)</u>
Earnings before taxes	400,000
Taxes @ 30%	<u>(120,000)</u>
Net Income	<u>280,000</u>

Required

Altman's Z score and interpret its meaning. (8 marks)

$$Z\text{-Score} = 1.2 X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + 0.999X_5 .$$

- d) Critically evaluate the applicability of the Altman Z Score in the context of your country. (7Marks)

QUESTION TWO

- a) Discuss the uses or utility of funds flow statement. (10marks)
- b) From the following balance sheet, prepare a Funds flow statement for ABC Ltd.(10marks)

	At 31st December	
	2011	2012
Issued share capital- \$ 1 ordinary shares	18,000	23,000
Retained profits	7,500	9,200
10% Debentures	6,000	7,500
Taxation payable 1st January following	2,900	3,200
Trade and Expenses Creditors	3,200	3,400
Proposed Dividends (gross)	<u>500</u>	<u>600</u>
	<u>38,100</u>	<u>46,900</u>
Fixed assets at cost	23,000	25,000
Less depreciation	<u>5,650</u>	<u>6,200</u>
	17,350	18,800
Stocks	12,000	14,695
Debtors	4,200	4,150
Balance at Bank	<u>4,550</u>	<u>9,255</u>

38,100

46,900

During the year fixed assets were purchased at a cost of \$ 5600. Fixed assets which cost \$3600 were disposed of for \$2500. The book value of these assets was \$1500 and the profit has been included in retained profits.

QUESTION THREE

The Sales and purchase of Whitesales Co. for the month of May 2015 amounted to Shs. 100,000 and Sh. 60,000 respectively. All sales and purchases are on 30days credit terms.

Details of the company's Working capital at the beginning and end of May 2015 were as follows:-

	May1st 2015	May 31st 2015
	Shs	Shs
Debtors	85,000	105,000
Stocks at cost	<u>45,000</u>	<u>35,000</u>
Total current assets	<u>130,000</u>	<u>140,000</u>
Creditors	40,000	63,000
Provisions for taxation (Sh.20, 000 payable in December 2015)	20,000	25,000
Proposed final dividend payable in June 2016)	30,000	30,000
Bank Overdraft (The limit is sh.35, 000 to be reduced To Sh.10, 000 in September, 2016)	25,000	17,000
Total current liabilities	<u>115,000</u>	<u>135,000</u>
Net Working Capital	<u>15,000</u>	<u>5,000</u>

Required

- a) (i) Calculate the liquidity ratio at 31st May,2015 (3marks)
- (ii) What other information would provide a better test of the company's short term liquidity other than the liquidity ratio? (3marks)
- b) (i) Calculate the debtors turnover rate for May 2015(3marks)
- (ii) What other information would provide a better test of the company's efficiency in debt collection other than the debtor's turnover rate? (3marks)
- c) (i) Calculate the stock turnover rate for May 2015 (4marks)
- (ii) What other information would provide a better test of the company's efficient management of investment in stocks other than the stock turnover ratio?(4marks)

QUESTION 4

ABC Ltd had the following capital Structure in 2015

	\$
100,000 Ordinary Shares, \$ 1 each	100,000
50,000, 8% Preference shares, \$ each	<u>50,000</u>

The market price at 31st December of Ordinary shares was \$ 3. Declared dividend was 10%. In the year, the total earnings were \$ 68,000 and the tax was 50%.

You are required to calculate:-

- i) The dividend yield. (4marks)
- ii) Dividend cover.(4marks)
- iii) Earnings per share.(4marks)
- iv) P/E ratio.(4marks)
- v) Earnings yield.(4marks)

QUESTION 5

- a) What is a 'cash flow statement'? Discuss its utility. (10marks)
- b) Explain the differences between Cash flow statement and Funds flow statement.
(10 marks)