

TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

UNIT CODE: BFI 4311 UNIT TITLE: FINANCIAL STATEMENT ANALYSIS

SERIES: FEB/MAY

TERM PAPER TWO

TIME: 2 HOURS

INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS.

QUESTION 1

- a) Explain the technique of preparing the Cash Flow Statement.(10Marks)
- b) Discuss the differences between Cash flow Statement and Funds flow Statement.(10Marks)
- c) Explain the role of ratio analysis in the interpretation of financial statements, and examine the limitations of ratio analysis , if any.(10Marks)

QUESTION 2

- a) The following information has been extracted from the published accounts of Pesa Corporation Limited, a company quoted on the Nairobi Stock Exchange.

	Shs
Net profit after tax and interest	990,000
Less: dividends for the period	<u>740,000</u>
Transfer to reserves	250,000
Accumulated reserves brought forward	<u>810,000</u>
Reserves carried forward	<u>1,060,000</u>
Share capital (Sh 10par value)	<u>8,000,000</u>
	<u>12%</u>

Required:

- a) What is meant by a company quoted on the Nairobi Stock Exchange? (5Marks)
- b) Calculate for Pesa Corporation Limited the following ratios and indicate the importance of each to Miss Hisa, a shareholder.
 - i) Earnings per share (5 Marks)
 - ii) Price earnings ratio (5Marks)
 - iii) Dividend Yield (5Marks)

QUESTION 3

- a) Who are users of financial statement analysis reports? (7Marks)
- b) From the following information, prepare the projected Trading and Profit and loss Account for the next financial Year ending December 31,2014and the projected Balance Sheet as on that date:

Ratio of Gross Profit	25%
Net Profit to equity Capital	10%
Stock Turnover Ratio	5Times
Average Debt Collection Period	2Months
Creditors Velocity	3Months
Current Ratio	2
Proprietary Ratio (Fixed Assets to Capital Employed)	80%
Capital Gearing Ratio(preference shares & Debentures to Equity)	30%
General Reserve and P&l to Issued Equity Capital	25%
Preference Share Capital to Debentures	2

Cost of Sales consists of 40% for materials and balance for Wages and Overheads. Gross profit of Shs.6 M. Working notes should be, clearly shown. (13Marks)

QUESTION 4

The following financial statements relate to the ABC Company:

Assets	Shs	Liabilities & Net worth	Shs
Cash	28,500	Trade Creditors	116,250
Debtors	270,000	Notes payable (9%)	54,000
Stock	<u>649,500</u>	Other Current liabilities	100,000
Total current assets	948,800	Long term debt (10%)	300,000
Net fixed assets	<u>285,750</u>	Net worth	663,000
	<u>1,233,750</u>		<u>1,233,750</u>

Income Statement for the year ended 31 March 2015

Sales	1,972,500
Less cost of sales	<u>1,368,000</u>
Gross Profit	604,500
Selling and administration expenses	498,750
Earnings before interest and tax	498,750
Interest expenses	105,750
Estimated taxation (40%)	<u>34,500</u>
Earnings after interest and tax	<u>28,500</u>

Required

a) Calculate:-

- i) Inventory turnover ratio.
- ii) Times interest earned ratio
- iii) Total assets turnover,
- iv) Net profit margin

QUESTION 5

- a) Write brief notes on percentage of Sales Method and state its assumptions (10Marks)
- b) An extract from the finance statements of Mtwapa Fisheries Ltd is shown below:

	Shs.
Issued share capital	1,500,000
150,000 Ordinary shares of sh. 10 each fully paid	
10% loan stock 2015	2, 000,000
Share Premium	1,500,000
Share Reserve	<u>7,000,000</u>
Capital employed	<u>12,000,000</u>

Additional Information

The profit after 30% is 600,000. However, interest charge has not been deducted.

Ordinary dividend payout ratio is 40%

The current market value of Ordinary shares Shs. 36

Required

- a) Return on Capital employed (3marks)
- b) Earnings per share (3marks)
- c) Price earnings ratio (4marks)