



# TECHNICAL UNIVERSITY OF MOMBASA

## SCHOOL OF BUSINESS

### DEPARTMENT OF ACCOUNTING & FINANCE

#### UNIVERSITY EXAMINATION FOR:

#### BCOM/BBA

#### BFI4311: FINANCIAL STATEMENT ANALYSIS

#### END OF SEMESTER EXAMINATION

#### SERIES: DECEMBER 2016

#### TIME: 2 HOURS

#### DATE: Pick Date Dec 2016

#### Instructions to Candidates

You should have the following for this examination

-Answer Booklet, examination pass and student ID

This paper consists of **FIVE** questions. Attempt question ONE (Compulsory) and any other TWO questions.

**Do not write on the question paper.**

#### Question ONE (Compulsory)

Electric Ltd. is an expanding private company in the electric trade. Accounts prepared in January 2015 included the following information:

#### Income statement for the year ended 31 Dec. 2014 & 31 Dec 2015

	2014		2015	
	Ksh.	Ksh.	Ksh.	Ksh.
Sales		80,000		120,000
Less cost of goods sold				
opening stock	25,000		22,500	
Add purchases	<u>50,000</u>		<u>91,000</u>	
	75,000		113,500	
Less closing stock	<u>15,000</u>	<u>60,000</u>	<u>17,500</u>	<u>96,000</u>
Gross profit		20,000		24,000
Less Depreciation	1,000		3,000	
other expenses	<u>9,000</u>	<u>10,000</u>	<u>6,000</u>	<u>9,000</u>

Net profit	<u>10,000</u>	=	<u>15,000</u>
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Balance sheets

Non-current assets

Equipment at cost	10,000		20,000
Less Depreciation to date	<u>8,000</u>	2,000	<u>6,000</u> 14,000

Current assets

stock	15,000		17,500
Debtors	25,000		20,000
Bank	<u>5,000</u>		<u>2,500</u>
	45,000		40,000

Less current

liabilities

creditors	<u>5,000</u>	<u>40,000</u>	<u>10,000</u>	<u>30,000</u>
		<u>42,000</u>		<u>44,000</u>

Financed by:

Capital

Balance at start of year	38,000		36,000
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Add Net profit	<u>10,000</u>		<u>15,000</u>
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	48,000		51,000
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Less Drawings	<u>6,000</u>		<u>7,000</u>
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	<u>42,000</u>	-	<u>44,000</u>
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Required:

a) Calculate for each year the following ratios:

i) Gross profit margin

ii) Net profit margin

iii) Current ratio

iv) Acid test ratio

v) Return on capital employed

vi) Asset turnover

(12marks)

b) Comment on the current position of Electric Ltd. with the aid of the accounting ratios above and any other information that you consider to be relevant. (4marks)

c) Explain the following two categories of the analysis and interpretation of financial statements:

i) On the basis of materials used (4marks)

ii) On the basis of Modus operandi (4marks)

d) Briefly explain the limitations of ratio analysis. (6marks)

## Question TWO

The following are the summarized balance sheets of Export Ltd. for the two years ended 31<sup>st</sup> December 2015.

	December 2014	December 2015
	Ksh.	Ksh.
Issued share capital-shs.5		
Ordinary shares	900,000	1,150,000
Retained profits	375,000	460,000
10% Debentures	300,000	375,000
Corporation tax	145,000	160,000
Trade creditors and accruals	160,000	170,000
Proposed dividends	<u>25,000</u>	<u>30,000</u>
	<u>1,905,000</u>	<u>2,345,000</u>
Fixed Assets at cost	1,150,000	1,250,000
Less Depreciation	<u>282,500</u>	<u>310,000</u>
	867,500	940,000
Stock-in-trade	600,000	734,750
Trade debtors	210,000	207,500
Balance at bank	<u>227,500</u>	<u>462,750</u>
	<u>1,905,000</u>	<u>2,345,000</u>

During the year, fixed assets were purchased at cost of Shs.280, 000. Fixed assets which had cost Shs. 180,000 were disposed of for Shs. 125,000. The book value of these assets was Shs. 75,000 and the profit has been included in retained profits.

Required:

Prepare a funds flow statement for Export Ltd. reconciling the opening and closing balances of working capital.

(16 marks)

b) Explain the concept of statement of changes in financial position.

(4marks)

### Question THREE

The following is the balance sheet of ABC Ltd. for the year 2014 and 2015.

Balance sheet of ABC Ltd. for the year 2014 and 2015

Liabilities	2014 Shs.	2015 Shs.	Assets	2014 Shs.	2015 Shs.
Current Liabilities	37,000	50,000	Cash in hand	3,000	5,000
Debenture	50,000	60,000	Cash at Bank	10,000	20,000
Long-term debts	200,000	250,000	Bills receivable	7,000	10,000
Capital:			Sundry Debtors	10,000	15,000
Preference Share capital	100,000	150,000	Stock	20,000	25,000
Equity capital	125,000	160,000	Fixed assets	490,000	625,000
General Reserve	28,000	30,000			
	540,000	700,000		540,000	700,000

Required:

- Prepare a Comparative Balance Sheet. (16marks)
- Make an interpretation of the results. (4marks)

### Question FOUR

- Calculate the trend percentage from the following figures of Ram & Co. Ltd. The year 2010 is taken as the base year. (10marks)

Year	Sales	Cost Of Goods Sold Kshs.	Gross Profit Kshs.
2010	2000	1400	600
2011	2500	1800	700
2012	3000	2200	800
2013	3500	2600	900
2014	4000	3000	1000

- Discuss the important objectives of financial statements. (10marks)

### Question FIVE

- Briefly explain the main limitations of financial statements. (6marks)
- Describe the uses and limitations of fund flow statements. (6 marks)
- Give a brief view of sources and application of funds (8marks)