



TECHNICAL UNIVERSITY OF MOMBASA

School of Business & Social Studies

DEPARTMENT OF ACCOUNTING AND FINANCE

UNIVERSITY EXAMINATIONS FOR DEGREE IN
BACHELOR OF COMMERCE

BFI 4311: FINANCIAL STATEMENTS ANALYSIS

MAIN EXAMINATIONS

SERIES: August 2019 Paper2

TIME: 2 HOURS

INSTRUCTIONS:

Answer Question **ONE (Compulsory)** and any other **TWO** questions

This paper consists of Three printed pages

QUESTION ONE (COMPULSORY)

Magneto 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 31st December 2014 and 31st December 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	50,000		91,000	
	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	9,000	<u>10,000</u>	6,000	<u>9,000</u>
Net profit		<u>10,000</u>		<u>15,000</u>
<u>Balance sheets</u>				
<i>Noncurrent assets</i>				
Equipment at cost	10,000		20,000	
Less depreciation to date	<u>8,000</u>	2,000	<u>6,000</u>	14,000
<i>Current assets</i>				
Stock	15,000		17,500	
Debtors	25,000		20,000	

Bank	5,000		2,500	
	45,000		40,000	
<i>Less current liabilities</i>				
creditors	5,000	<u>40,000</u>	10,000	<u>30,000</u>
		<u>42,000</u>		<u>44,000</u>
Financed by :				
Capital				
Balance at start of year		38,000		36,000
Add net profit		10,000		15,000
		48,000		51,000
Less drawings		<u>6,000</u>		<u>7,000</u>
		<u>42,000</u>		<u>44,000</u>

Required:

- a) Calculate for each year the following ratios:
- Gross profit margin
 - Net profit margin
 - Current ratio
 - Acid test ratio
 - Return on capital employed
 - Asset turnover
- (12 marks)
- b) Comment on the current position of electric ltd. With the aid of the accounting ratios above and any other information that you may consider relevant. (4 marks)
- c) Explain the following two categories of the analysis and interpretation of financial statements:
- On the basis of material used (4 marks)
 - On the basis of modus operandi (4 marks)
 - Briefly explain the limitations of ratio analysis. (6 marks)

QUESTION TWO

The following are the summarized balance sheet of export ltd. For the two years ended 31st December 2015

	December 2014	December 2015
	Ksh	Ksh
Issued share capital – shs.5		
Ordinary shares	900,000	1,150,000
Retained profit	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	282,500	310,000
	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>46,750</u>
	<u>1,905,000</u>	<u>2,345,000</u>

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

Required:

- a) Prepare 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 (4 marks)

QUESTION THREE

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

QUESTION FOUR

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 Ksh	2015 Ksh	Assets	2014 Ksh	2015 Ksh
Current liabilities	37,000	50,000	Cash in hand	3,000	5,000
debentures	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:

- i). Prepare a comparative balance sheet. (16 marks)
- ii). Make an interpretation of the results. (4 Marks)

QUESTION FIVE

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

year	sales	Cost of goods sold Ksh	Gross profit (Ksh)
2010	2,000	1,400	600
2011	2,500	1,800	700
2012	3,000	2,200	800
2013	3,500	2,600	900
2014	4,000	3,000	1,000

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