



TECHNICAL UNIVERSITY OF MOMBASA

School of Business

DEPARTMENT OF ACCOUNTING AND FINANCE

UNIVERSITY EXAMINATIONS FOR DEGREE IN

BACHELOR OF COMMERCE

BACHELOR OF SCIENCE MATHEMATICS & FINANCE

BFI 4310: FINANCIAL STATEMENTS ANALYSIS

SUPPLEMENTARY EXAMINATIONS

SERIES: JULY 2025

TIME: 2 HOURS

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

- a) Explain the benefits and limitations of Historical Cost accounting approach (12 marks)
- b) The following information was extracted from the books of Avocado Ltd during financial year ending 31 May 2020

	Ksh
Cost of Sales	9,600,000
Retained Earnings b/f	1,070,000
Non-Current Assets	9,750,000
Ordinary Shares	8,800,000
Working Capital	1,250,000
Gross Profit Margin	20%
ROCE	15%
Net Profit Margin	7%
Tax Rate	30%
Dividends Pay out	25%
Current ratio	1.5

Required:

- i. Income statement for the year ended 31st May 2020 (10 marks)
 ii. Statement of Financial Position as at 31st May 2020 (8 Marks)

QUESTION TWO

Janet and Ruth are sole proprietors carrying on business as wholesalers. Their financial statement for the year ended 31 March 2011 were as follows:

	JANET Ksh "000"	RUTH Ksh "000"
Sales	144,000	140,000
Cost of sales		
Opening inventory	28,000	3,200
Purchases	<u>124,000</u>	<u>121,600</u>
	152,000	124,800
Closing inventory	<u>(32,000)</u>	<u>(4,800)</u>
	<u>120,000</u>	<u>120,000</u>
Gross profit	24,000	20,000
Distribution costs	7,200	2,800
Administrative expenses	<u>8,160</u>	<u>9,500</u>
	<u>15,360</u>	<u>12,300</u>
Net profit	8,640	7700

Statement of financial position as at 31st march 2011

	JANET shs "000"	RUTH shs" 000"
Assets		
Non current assets		
Freehold property	20,000	14,000
Fixtures, fittings and equipments	21,750	13,840
Motor vehicle	<u>12,000</u>	<u>6,000</u>
	<u>53,750</u>	<u>33,840</u>
Current assets		
Inventories	32,000	4,800
Accounts receivables	28,800	11,200
Bank balances	<u>8,950</u>	<u>11,360</u>
	<u>69750</u>	<u>27360</u>
Total assets	<u>123,500</u>	<u>61,200</u>
Capital and liabilities		
Capital	108,000	30,800
Accounts payable	<u>15,500</u>	<u>30400</u>
Total capital and liabilities	<u>123,500</u>	<u>61,200</u>

Additional information:

- The amounts of accounts receivable and accounts payable have not changed significantly over the year
- All sales are on credit

3. All the non-current assets are at written- down value
4. Assume that inventories increased evenly over the year

Required:

- a) For each business, compute the following
 - i. Three (3) profitability ratio (6marks)
 - ii. Current ratio (2marks)
 - iii. Acid test ratio (2marks)
 - iv. Inventory turnover ratio (2marks)
 - v. Total assets turnover ratio (2marks)
 - vi. Accounts receivable turnover ratio (2marks)
- b) Using the ratio computed in (a) above, comment on the performance of each business (4marks)

QUESTION THREE

- a) Describe the stages involved in constructing a financial model (10marks)
- b) Describe the stages involved in Financial Statement Analysis (10 marks)

QUESTION FOUR

- a) Shark Ltd. has the following financial statements:

Income statement for the year ended 31st August 2014

	shs
Sales	11,510,100
Cost of sales	<u>(5,928,500)</u>
Gross profit	581,600
Investment income	22,680
Distribution cost	(1,963,680)
Administrative expenses	<u>(1,363,520)</u>
Operating profit	2,277,080
Finance cost	<u>(316,000)</u>
Profit before tax	1,961,080
Income tax expense	<u>(631,480)</u>
Profit for the year	<u>1,329,600</u>

Statement of financial position as at 31st August

	Shs 2014	Shs 2013
Assets		
Non-current assets at cost	26,100,540	21,410,160
Accumulated depreciation	<u>(5,919,340)</u>	<u>(5,003,760)</u>
Net book value	<u>20,181,200</u>	<u>16,406,400</u>
Current assets		
Inventory	6,601,760	5,825,920
Trade receivables	2,485,500	3,465,280
Cash and cash equivalents	<u>237,840</u>	<u>214,160</u>

	<u>9,325,100</u>	<u>9,405,360</u>
	<u>29,506,300</u>	<u>25,911,760</u>
Equity and liabilities		
Ordinary share capital	8,400,000	6,000,000
Share premium	3,156,800	2,570,000
Revaluation reserve	2,981,600	1,636,800
Retained earnings	<u>7,989,600</u>	<u>7,276,000</u>
	<u>22,528,000</u>	<u>17,482,800</u>
Non current liabilities		
9% loan stock	2,693,600	3, 530,000
Current liabilities		
Trade payables	3,802, 200	4,380,480
Taxation	<u>482,500</u>	<u>518,480</u>
	<u>4,284,700</u>	<u>4,898,960</u>
	<u>29,506,300</u>	<u>25,911,760</u>

Additional information:

1. The company made a profit of Sh. 26,400 on the sale of equipment whose cost was Sh. 359,220 and whose accumulated dividend depreciation was Sh. 79,220.
2. The only revaluation on non-current assets was for a piece of freehold land
3. An interim dividend of Sh. 616,000 had been declared and paid in the course of the year

Required:

Statement of cash flow in accordance with International Accounting Standard (IAS) 7 "Statement of cash flows" for the year ended 31st August 2014 (20marks)

QUESTION FIVE

- a) Explain the concept of corporate credibility Gap as it relates to financial statement (5marks)
- b) Describe the financial planning process (12marks)
- c) Explain the term fraud analytics (3marks)