

# THE CO-OPERATIVE UNIVERSITY OF KENYA

## END OF 2<sup>ND</sup> TRIMESTER 2019 EXAMINATION

**SCHOOL** : **BUSINESS AND ECONOMICS**  
**DEPARTMENT** : **ACCOUNTING, FINANCE & INVESTMENTS**  
**UNIT CODE** : **HBFD 2303**  
**UNIT TITLE** : **FINANCIAL STATEMENT ANALYSIS**  
**TIME** : **2 HOURS**

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### INSTRUCTIONS

- *Question One is Compulsory*
- *Answer Two other Questions*

### Question One

(a) Mr. Kimathi's Co. Ltd had the following sales and purchases for the month of May 2004 which amounted to Sh. 100,000 and Sh. 60,000 respectively. It was also noted that all sales and purchases are on 30 days credit terms' The companies working capital at the beginning and end of May 2004 were as follows:

	May 1 <sup>st</sup> 2004	May 31 <sup>st</sup> 2004
	(shs)	(shs)
Debtors	95,000	115,000
Stock at cost	<u>55,000</u>	<u>45,000</u>
	150,000	160,000
Creditors	50,000	73,000
Provision for taxation	30,000	35,000
(Shs 3000 payable in Dec, 2004)		
Proposed final dividends	40,000	40,000
(Payable in June 2004)		

Bank overdraft

(The limit is sh. 5,000 to be

Reduced to shs. 20,000 in Sept,

2004)	25,000	17,000
Total current liabilities	145,000	135,000
Net working capital	15,000	5,000

**Required:**

- (i) Calculate the liquidity ratios as at 31<sup>st</sup> May 2004. (4 Mks)
- (ii) Calculate the debtors' turnover rate for May 2004. (4 Mks)
- (iii) Calculate the stock turnover for May 2004. (4 Mks)
- (b) When conducting a trend analysis, comparison of company's own financial data over a period of time is involved. Discuss the importance needs to be taken into account. (8 Mks)
- (c) Discuss the cash flow statements and explain the main differences between cash flow statement and fund flow statement. (6 Mks)
- (d) Describe the symptoms of financial distress in a company. (4 Mks)

**Question Two**

- (a) Discuss how financial statements analysis would facilitate risk management in an organization. (10 Mks)
- (b) Discuss the information that is provided by the following:
  - (i) Comparative statements (4 Mks)
  - (ii) Trend percentages (3 Mks)
  - (iii) Common size percentages. (3 Mks)

**Question Three**

- (a) Differentiate between vertical and horizontal analysis. (10 Mks)
- (b) Outline the parties that would be interested in financial statement analysis and why? (10 Mks)

#### **Question Four**

The following balance sheet was prepared from the books of ABC Ltd

XYZ Company

Year ended 31st Dec 2012&2013

Asset	2012	2013
Cash	20,000	17,000
marketable securities	20,000	17,000
Notes receivable	4,000	3,000
Accounts Receivable	50,000	56,000
Merchandise inventory	70,000	43,000
Prepaid expenses	4,000	4,000
Property plant and equipment	340,000	310,000
	508,000	455,000
liabilities & Stockholders' equity		
Accounts payable	40,000	38,000
Salaries payable	2,000	3,000
Taxes Payable	4,000	2,000
Total current liabilities	46,000	43,000
Bonds payable	100,000	100,000
Total liabilities	146,000	143,000
Preferred Stock	50,000	50,000
Common stock	150,000	125,000
Retain earnings	162,000	137,000
Total stockholders equity	362,000	312,000
Total liabilities & Stockholders equity	508,000	455,000

- Carry out a common size balance sheet for the year ended 31st Dec 2012/2013.

(10  
marks)

- Interpret the results (5 Marks)
- Discuss the limitations of this method of analysis (5 Marks)

**Question Five**

- (a) Describe the limitations of ratio analysis as a tool of financial statement analysis. (10 Mks)
- (b) Consider two firms X and Y each with a return on assets of 10%. Firm X has a return on equity of 15% and Y of 20%. Which firm uses more leverage? Explain. (6 Mks)
- (c) Briefly outline the following accounting principles that guide carrying out financial statement analysis:
- (i) Full disclose principle
  - (ii) Materiality principle. (4 Mks)