



The Co-operative University of Kenya
END OF SEMESTER EXAMINATION DECEMBER-2019
EXAMINATION FOR THE DEGREE OF BACHELOR OF CO-OPERATIVE
BUSINESS/COMMERCE
UNIT CODE:
UNIT TITLE: FINANCIAL STATEMENT ANALYSIS

DATE: DECEMBER, 2019

TIME:

INSTRUCTIONS:

- Answer question **ONE (compulsory)** and any other **TWO** questions

QUESTION ONE

A comparative income statement of the ABC Ltd for 2013 and 2014 are as follows:

	Year 2013	year 2014
Sales	7,862,000	9,434,000
Cost of sales	<u>5,660,640</u>	<u>7,075,400</u>
Gross profit	2,201,360	2,358,600
Operating expenses	<u>1,365,060</u>	<u>1,367,690</u>
Operating income	836,300	990,910
Interest expenses	<u>126,000</u>	<u>157,500</u>
Earnings before tax	710,300	833,410
Income taxes	<u>317,200</u>	<u>400,000</u>
Net income	<u>393,100</u>	<u>433,410</u>

Required:

- (a) (i) Prepare a vertical and horizontal analysis of the above statements. (10 marks)
- (ii) Based on the results, comment on the performance of ABC Ltd. (5 marks)
- (iii) What are the strengths and weaknesses of the above analysis techniques? (6 marks)
- (b) Write short notes on the following:
- (i) Degree of operating leverage (3 marks)
- (ii) Common sale statement analysis (3 marks)
- (iii) Percentage of sales forecasting. (3 marks)

QUESTION TWO

- (a) Discuss the implications of market efficiency on financial information. (6 marks)
- (b) Explain what is meant by financial distress and discuss the factors that may indicate that a firm is experiencing financial distress. (6 marks)
- (c) Many researchers have tried to come up with models of predicting a firm's like hood of bankruptcy, this included Altman in 1968 using financial ratios.

Required:

Explain the main weakness of Altman's bankruptcy prediction model.

(8 marks)

QUESTION THREE

The following information relates to the income statement of R. Robert Ltd as at 30th October 2014.

Particulars	2012	2013	2014
	sh. '000'	sh. '000'	sh. '000'
Net sales	840	660	500
Cost of goods sold	650	522	424
Gross profit	410	358	116
Operating expenses	346	119	84
Net operating profit	114	119	82
Interest expense	11	75	75
Profit before tax	108	115.5	79.5
Provision for taxes	75	75	54
Profit after tax	113	110	41.5

Required:

Prepare a common size income statement and make a brief comment. (20 marks)

QUESTION FOUR

The following is extracted information from financial statement of Amani Ltd for the year 2005 to 2009.

Balance sheet as at year end 31 December

	2005	2006	2007	2008	2009
<u>Capital & Liabilities</u>					
Equity share capital	500,000	600,000	500,000	400,000	600,000
Reserve & surplus	400,000	550,000	300,000	400,000	300,000
Long term loan	250,000	300,000	350,000	340,000	250,000
Bills payable	100,000	150,000	200,000	115,000	100,000
Sundry creditors	200,000	250,000	150,000	200,000	150,000
<u>Assets</u>					
Land & Building	400,000	600,000	500,000	550,000	400,000
Plant & Machinery	600,000	650,000	500,000	500,000	600,000
Furniture	100,000	120,000	100,000	100,000	100,000
Cash	150,000	130,000	100,000	60,000	150,000
Stock	150,000	200,000	250,000	200,000	200,000
Prepaid expenses	500,000	150,000	50,000	45,000	50,000

Income statement as at year end 31 December

	2005	2006	2007	2008	2009
Sales	800,000	1,000,000	1,100,000	900,000	1,200,000
Cost of sales	600,000	810,000	850,000	700,000	900,000
Office expenses	20,000	30,000	35,000	25,000	25,000
Selling expenses	30,000	40,000	40,000	35,000	30,000
Non-operating expenses	30,000	20,000	25,000	30,000	35,000

Required:

You are required to carry out the following analyses:

- (a) Comparative balance sheet for the year 2006 and 2007 and interpret.
(10 Mks)
- (b) Trend analysis for the company's sales and not profit for the 5 years with 2005 as the base year and interpret. (10 marks)

QUESTION FIVE

- (a) Discuss the financial analysis techniques and enumerate their applications in decision making. (12 marks)
- (b) As a financial analyst, what are your main functions and how would you distinguish them from those of a financial manager? (8 marks)