



The Co-operative University College of Kenya
(A Constituent College of Jomo Kenyatta University of Agriculture & Technology)

END OF SEMESTER EXAMINATIONS APRIL - 2015

EXAMINATIONS FOR BACHELOR OF CO-OPERATIVE BUSINESS YEAR III
SEMESTER II

UNIT CODE: HCOB 2343

UNIT TITLE: FINANCIAL STATEMENT ANALYSIS

DATE: _____ **TIME:** _____

INSTRUCTIONS:

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

QUESTION ONE

a)

	2002
Sales	52,000
Cost of goods sold	<u>36,000</u>
Gross margin	<u>16,000</u>
Operating expenses:	
Selling expenses	7,000
Administration expenses	<u>5,860</u>
Total operating expenses	<u>128,601</u>
Net operating income	3,140
Interest expense	<u>640</u>
Net income before tax	2,500
less income tax 30%	<u>750</u>
Net income	1,750

Required:

- Prepare a common size profit and loss account (12 Marks)
- b) Explain the various limitation of ratio analysis (8 Marks)
- c) What is financial distress? Explain the reasons that lead to financial distress of a company (10 Marks)

QUESTION TWO

ABC Ltd has provided the following financial information for 2005/2006. Prepare a comparative statement (20 Marks)

	2005	2006
Sales	215	236
Less material	79	82
Labour direct	34	33
Indirect	35	39
Others	26	29
	<hr/>	<hr/>
	174	183
Admin costs	21	26
Selling cost	6	7
Distribution	3	3
	<hr/>	<hr/>
	204	219
Net profit before tax	11	17

Balance Sheet	2005	2006
Fixed assets	120	155
Less depreciation	65	65
	<hr/>	<hr/>
NBV	55	90
Inventory	55	62
Debtors	35	32
Bank	4	4
	<hr/>	<hr/>
	94	98
Less Current Assets	17	13
	<hr/>	<hr/>
	77	175
	<hr/>	<hr/>
	132	175

QUESTION THREE

- a) Explain the limitations of using Financial Ratios (10 Marks)
- b) Given the following profit information for Co. X for the year between 2004-2014, forecast the profits for the year 2014 using
- Average (3 Marks)
 - Moving average (7 Marks)

Year	Profit (000,000)
1	20
2	22
3	18
4	17
5	18

6	24
7	33
8	29
9	28
10	30

QUESTION FOUR

- a) Illustrate some of the factors that influence the risk of Financial Distress Cost (12 Marks)
- b) Explain the cost involved in financial statements (8 Marks)

QUESTION FIVE

- a) Explain TWO (2) major regulators of Financial Information (6 Marks)
- b) The following information represents the financial position and financial results of 4 Co. Ltd

Trendy Profit and Loss A/C		
	"000"	"000"
Sales - Cash		300,000
Credit		600,000
		<hr/> 900,000
Less cost of sales		
Opening stock	210,000	
Purchases	660,000	
	<hr/> 870,000	
Less closing stock	(150,000)	720,000
Gross profit		<hr/> 180,000
Less expenses		(53,000)
Net profit before tax		127,000
Compensate tax 30%		31,100
Net profit after tax		<hr/> 88,900
Preference dividend	4,800	
Ordinary dividend	10,000	14,800
Retained profit for the year		<hr/> 74,100

Balance sheet

Fixed Assets		213,900
Current Assets		
Stock	150,000	
Debtors	35,900	
Cash	70,000	205,900
	<hr/>	

Current Liabilities		
Trade creditors	60,000	
Corporation tax payable	63,500	
Proposed dividend	14,800	135,300
		<u>287,500</u>

Financed by:	"000"	"000"
Ordinary Share capital (Shs 10 per share)	100,000	
8% preference share capital	60,000	
Revenue reserve	81,500	
10% Bank Loan	40,000	251,500

Required:

Prepare:

- i) Acid test ratio
- ii) Operating ratio
- iii) Return on total capital employed
- iv) Price earnings ratio
- v) Interest coverage ratio
- vi) Total asset turnover

(14 Marks)