



(University of Choice)

**MASINDEMULIROUNIVERSITY OF
SCIENCE AND TECHNOLOGY
(MMUST)**

MAIN, BUNGOMA, WEBUYE CAMPUS

UNIVERSITY EXAMINATIONS

2022/2023 ACADEMIC YEAR

SECOND YEAR SEMESTER ONE EXAMINATION

FOR DIPLOMA

IN

BUSINESS MANAGEMENT

COURSE CODE: DBF 233

COURSE TITLE: FINANCIAL ANALYSIS & REPORTING:

DATE: TUESDAY, 6TH DECEMBER 2022 TIME: 2-5PM

INSTRUCTIONS TO CANDIDATES

Answer QUESTION ONE and any OTHER TWO questions

TIME: 2 Hours



MMUST observes ZERO tolerance to examination cheating

QUESTION ONE**(30 marks)**

- a) What is meant by Financial Analysis? **(2marks)**
- b) What do you understand by financial statements? **(4marks)**
- c) What do you understand by quality financial statements? **(3marks)**
- d) Explain four generally agreed accounting principles and what they mean to an financial analyst **(8 marks)**
- e) Why do analysts use financial ratios rather than the absolute numbers? Give an example. **(4marks)**
- f) Besides comparing a company's performance to its total industry, discuss what other comparisons should be considered within the industry. **(4marks)**
- g) Bond with face value of shs. 1000 2 years time to maturity and 10 % coupon rate, makes annual coupon payments and provides 8% yield-to-maturity.
- i) Calculate the price of the bond. **(2marks)**
- ii) If the yield-to-maturity would increase to 9%, what will be the price of the bond? How this change in the yield-to-maturity would influence bond price? **(3marks)**

QUESTION TWO**(20 Marks)**

- a) From the following information, you are required to prepare a common size statement and make comments. **(8marks)**

ABC Balance Sheet as at 31st December 2015

Liabilities	2002	2003	Assets	2002	2003
Sundry Creditors	42,000	154,000	Cash	27,000	72,000
Other liabilities	78,000	62,000	Sundry Debtors	220,000	226,000
Fixed liabilities	225,000	318,000	Stock	100,000	174,000
Capital	658,000	493,000	Prepaid Expenses	11,000	21,000
			Other Current Assets	10,000	21,000
			Fixed Assets	635,000	513,000
TOTAL	1,003,000	1,027,000		1,003,000	1,027,000

b) Discuss three key uses of financial statements with the aid of appropriate examples.

(6marks)

c) Firm currently pays a dividend of shs. 4.00 per share. That dividend is expected to grow at a 5 % rate indefinitely. Stocks with similar risk provide a 10 % expected return. Estimate the intrinsic value of the firm's stock based on the assumption that the stock will be sold after 2 years from now at its expected intrinsic value and total market value of the firm if it has 1000000 shares outstanding.

(6marks)

QUESTION THREE

(20 marks)

a) Discuss four objectives of preparing financial statements.

(8marks)

b) Kakamega Company Ltd. has the following balance sheet and income statement for year 2019 in shs.000:

Balance sheet			
Cash	400	Accounts payable	320
Accounts receivable	1300	Accruals	260
Inventories (sh1800 in 2016)	2100	short term loans	1100
Current Assets	3800	current liabilities	1680
Net Fixed assets (dep 480)	3320	Long term debt	2000
		Shareholders' equity	3440
Total assets	<u>7120</u>	Total liabilities &Equity	<u>7120</u>

Income statement	
Net sales (all credit)	12680
Cost of goods sold	<u>8930</u>
Gross profit	3750
Selling, General & Adm. Expenses	2230
Interest expense	<u>460</u>
Profit before tax	1060

Taxes 390

Profit after taxes 670

On the basis of this information, Compute

- i) Average payable period (2marks)
- ii) Acid test ratio (2marks)
- iii) Average collection period (2marks)
- iv) The inventory turnover ratio (2marks)
- v) Rate of return on common stock (2marks)
- vi) Cash cycle (2marks)

QUESTION FOUR

(20 Marks)

The following financial information ('000) was collected from four companies A,B,C& D listed on the stock exchange. Use the information to answer the questions that follow.

Variable	Company A(000)	Company B (000)	Company C (000)	Company D (000)
Working capital	4000	2000	6000	40000
Retained Earnings	60000	20000	20000	200000
Sales	200000	120000	900000	2000000
Liabilities	120000	80000	740000	1000000
Assets	200000	100000	800000	1800000
Market Value of Equity	20000	5000	48000	100000
EBIT	10000	0	30000	30000

Required

- a) Using Z-score technique, predict the bankruptcy position for the above companies. (10marks)
- b) Discuss any five causes and solutions to business failure. (10marks)