



MASINDE MULIRO UNIVERSITY OF SCIENCE AND TECHNOLOGY

(MMUST)

MAIN/BUNGOMA/WEBUYE CAMPUS

UNIVERSITY EXAMINATIONS

2022/2023 ACADEMIC YEAR

THIRD YEAR SECOND SEMESTER EXAMINATIONS

FOR THE DEGREE

OF

B.Sc. ACCOUNTING/BACHELOR OF COMMERCE

COURSE CODE: BCF 325

COURSE TITLE: FINANCIAL STATEMENT ANALYSIS

DATE: Wednesday 19th April 2023

TIME: 3.00-5.00 pm

INSTRUCTIONS TO CANDIDATES

Answer **QUESTION ONE** and **ANY OTHER TWO** questions.

TIME: 2 HOURS

MMUST observes ZERO tolerance to examination cheating

This Paper Consists of 5 Printed Pages. Please Turn Over.

QUESTION ONE COMPULSORY (30 MARKS)

- a) Analysis of pension schemes is helpful to individuals as well as to fund managers. Kindly describe how relevant is pension scheme analysis helpful to various users of financial statements. (10 marks)
- b) Financial analysis helps in effective financial management. Discuss the statement in line with scope of finance. (6 marks)
- c) In relation to IAS 12 accounting for income taxes, differentiate between Permanent differences and Temporary differences. Use relevant examples. (4 marks)
- d) In producing the conceptual Framework for Financial Reporting and some of the current IFRSs, the IASB has had to address the potential problem that the management of some companies may choose to adopt inappropriate accounting policies. These could have the effect of portraying an entity's financial position in a favourable manner. In some countries this is referred to as "creative accounting"

Required:

- i) Describe in broad terms common ways in which management can manipulate financial statements to indulge in the so called 'creative and why they would wish to do so. (5 marks)
- ii) Describe how the requirements of IAS 33 Earning per share and IFRS 9 are intended to prevent 'creative accounting'. (5 marks)

QUESTION TWO (20 MARKS)

- a) Explain the importance of time series analysis (5 marks)
- b) The following information relates to Daniel's investment

Year	production (Tones)	year	production (Tones)
2005	651	2014	800
2006	666	2015	818
2007	661	2016	755
2008	662	2017	802
2009	700	2018	840
2010	719	2019	857
2011	710	2020	871
2012	720	2021	886
2013	850	2022	912

Required:

Using the method of moving average of 4 and 6 year period calculate the trend values (15 marks)

QUESTION THREE (20 MARKS)

Temo Hardware Tools Company Limited sells plumbing fixture on terms of 2/10 net 30. Its financial statements for the last three years are as follows:

	2020	2021	2022
	Sh.	Sh.	Sh.
Cash	800,000	800,000	800,000
Accounts receivable	30,000	20,000	5,000
Inventory	200,000	260,000	290,000
Net fixed assets	<u>400,000</u>	<u>480,000</u>	<u>600,000</u>
	<u>1,430,000</u>	<u>1,560,000</u>	<u>1,695,000</u>
Accounts payable	230,000	300,000	380,000
Accruals	200,000	210,000	225,000

Bank loan, short-term	100,000	100,000	100,000
Long-term debt	300,000	300,000	300,000
Common stock	100,000	100,000	100,000
Retained earnings	<u>500,000</u>	<u>550,000</u>	<u>550,000</u>
	<u>1,430,000</u>	<u>1,560,000</u>	<u>1 695,000</u>

Additional information

Sales	4,000,000	4,300,000	3,800,000
Cost of goods sold	3,200,000	3,600,000	3,300,000
Net profit	300,000	200,000	100,000

Required:

- a) For each of the three years, calculate the following ratios
 - i. Acid test ratio (3marks)
 - ii. Average collection period (3marks)
 - iii. Inventory turnover (3marks)
 - iv. Total debt/equity (3marks)
 - v. Net profit margin (3marks)
 - vi. Return on assets (3marks)
- b) Comment on the liquidity and profitability of the firm (2marks)

QUESTION FOUR (20 MARKS)

- a) You have completed the following forecast of free cash flows for an eight year period, capturing the normal business cycle of Marathon Inc.

Year	FCF
2015	1860.0
2016	1887.6
2017	1917.6
2018	1951.2
2019	1987.2
2020	2016.0
2021	2043.6
2022	2070.0

Free cash flows are expected to grow at 3% beyond 2022. The cost of capital is assumed to be 12%. What is Marathon's value? (10 marks)

- b) Marcoli Co has produced the following net profit figures for the years ending 31st December.

	Sh. (M)
2019	1.1
2020	1.5
2022	1.8

On 1st January 2020 the number of shares outstanding was 500,000. During 2020 the company announced a rights issue with the following details:

Rights: 1 new share for each 5 held (100,000 new shares in total)
 Exercise price: Sh. 5.00
 Last date to exercise rights: 1st March 2020

The market (fair) value of one share in Marcoli immediately prior to exercise on 1st March 2020 = Sh. 11.00

Required:

Calculate the EPS for 2019, 2020 and 2022. (10 marks)

QUESTION FIVE (20 MARKS)

a) The following balance sheet was prepared from Mask limited at 31st December 2015

Non Current Assets	shs.
Land and buildings	1500000
Machinery	3000000
Current assets	
Inventories	2000000
Accounts receivable	500000
Cash	500000
Total Assets	7500000
Equity & Liabilities	
Equity Capital @ shs 5 per share	800000
Retained Profits	3100000
Non Current Liabilities	
10% Debenture	800000
12% Bank loan	400000
Current Liabilities	
Accounts Payable	2400000
Total equity & Liabilities	7500000

Additional Information

i) Earnings before interest and tax	shs. 4000000
ii) Market Value of Equity	shs. 1000
iii) Sales	shs. 3000000

Required:

- Using ALTMAN formular for predicting bankruptcy, calculate the Z score and comment (8marks)
- Discuss Four causes of business Failure and their solutions. (12marks)