NURTURING INNOVATORS

RIARA SCHOOL OF BUSINESS

SEPTEMBER – DECEMBER 2023 TRIMESTER

EXAMINATION FOR DEGREE IN BUSINESS ADMINISTRATION

DAY/EVENING PROGRAMME

RAC 404: FINANCIAL STATEMENTS ANALYSIS

DECEMBER 2023 **TIME: 2 HOURS**

GENERAL INSTRUCTIONS:

Students are NOT permitted to write on the examination paper during reading time.

This is a closed book examination. Text book/Reference books/notes are not permitted.

SPECIAL INSTRUCTIONS:

1. Write your REGISTRATION NO. Clearly on the answer booklet(s).
2. Answer Question One and ANY other TWO questions.
3. Questions in all sections should be answered in answer booklet(s).
4. Marks allocated to each question are shown at the end of the question.
5. PLEASE start the answer to EACH question on a NEW PAGE.
6. For the questions, write the number of the question on the answer booklet(s) in the order you answered them.
7. Write your answers in paragraph form unless stated otherwise.
8. Keep your phone(s) SWITCHED OFF at the front of the examination room.
9. Keep ALL bags and caps at the front of the examination room and do not refer to any unauthorized material before or during the course of the examination.
10. You are only allowed to leave the examination room 30minutes to the end of the Examination.

QUESTION ONE: COMPULSORY (30 MARKS)

a) Explain the role of Financial Statements Analysis and evaluate **four** key benefits that such analysis provides to a business **(8 marks)**

b) Evaluate **three** limitations of using financial ratio analysis to appraise the performance of a firm **(6 marks)**

c) Discuss **four** methods of Financial statements analysis **(8 marks)**

d) Analyze the term Financial distress and identify **four** indicators that a business may be experiencing financial distress **(8 marks)**

QUESTION TWO

Omega Ltd is an expanding company and the following accounts relate to its operations or the years 2021 and 2022

Profit Statement for the year Ended 30th June

	2021		2022	
Sales		3,000,000		4,800,000
Cost of goods sold		1,650,000		2,700,000
Gross Profit		**1,350,000**		**2,100,000**
Trading Expenses	675,000		825,000	
Debenture interest	37,500		37,500	
		712,500		862,500
Net profit before taxation		637,500		1,237,500
Corporation tax		240,000		480,000
Net profit after taxation		397,500		757,500
Ordinary share dividend		187,500		262,500
Retained profits		**210,000**		**495,000**

Statement of Financial Position as at 30th June

	2021		2022	
Fixed Assets	1,500,000			2,100,000
Depreciation	300,000			375,000
		1,200,000		1,725,000
Stock	600,000		825,000	
Debtors	375,000		525,000	
Bank	120,000		97,500	
Total current assets		1,095,000		1,252,500
Creditors	217,500		300,000	
Taxation	240,000		480,000	
Proposed Dividend	187,500		262,500	
Total current liabilities		645,000		1,042,500
Net Assets		450,000		210,000
		1,650,000		**1,935,000**
Financed by				
Ordinary shares		750,000		750,000
Retained Profits		525,000		1,020,000
10% Debentures		375,000		165,000
		1,650,000		**1,935,000**

Required:

a) Compute the following- ratios for the two years 2021 and 2022:

i. **two** liquidity ratios **(4 marks)**

ii. **two** profitability ratios **(4 marks)**

iii. **two** activity ratios **(4 marks)**

b) Comment on the financial position of the company with the aid of the ratios computed in (a) above and any other information that you may consider necessary **(4 marks)**

c) Analyze three methods of securities valuation **(4 marks)**

QUESTION THREE

Examine the data below, which is extracted from the accounts of Alpha Manufacturers over a period of six years (2016 to 2021)

	2021	**2020**	**2019**	**2018**	**2017**	**2016**
Assets						
Current assets						
Cash and cash equivalents	35,780	16,140	24,180	17,160	29,000	31,020
Short term investments	2,560	4,500	5,240	7,000	56,060	47,740
Accounts receivable	105,480	124,900	107,600	97,380	67,780	59,800
Inventories	141,340	163,960	163,200	132,940	124,720	122,100
Prepaid expenses	18,540	23,600	20,080	18,100	10,020	6,300
Total current assets	303,700	333,100	320,300	272,580	287,580	266,960
Total current liabilities	255,000	259,000	247,000	173,000	139,000	125,220
Working Capital	**48700**	74,100	73,300	99,580	148,580	141,740
Fixed Assets						
Property, Plant & Equipment	358,080	343,540	308,120	301,780	269,800	233,620
Intangible assets (net)	87,100	76,680	93,380	99,320	-	-
Other assets	80,920	69,800	64,620	48,240	62,100	51,980
Total fixed assets	526,100	490,020	466,120	449,340	331,900	285,600
Total Assets	**829,800**	**823,120**	**786,420**	**721,920**	**619,480**	**552,560**

Required:

a) Prepare the vertical statement analysis of Alpha Manufacturers for 2016 through to 2021, using total assets as the base **(7 marks)**

b) Prepare the horizontal statement analysis of Alpha Manufacturers for 2016 through to 2021, using the year 2016 as the base **(7 marks)**

c) Comment on the significant trends that appear in a) and b) above **(6 marks)**

QUESTION FOUR

	2020	2021	2022
	Kshs	Kshs	Kshs
	000	000	000
Fixed Assets			
Plant and equipment	33,000	40,275	41,025
Current assets			
Stocks	5,475	5,700	6,225
Trade debtors	5,100	5,250	6,075
Short term investments	10,500	4,500	3,225
Cash at bank and in hand	4,800	4,125	5,400
	25,875	19,575	20,925
Current Creditors			
Short term loans	(5,850)	(6,450)	(6,375)
Trade creditors	(6,900)	(6,525)	(6,675)
Taxation	(900)	(1,050)	(1,325)
Total	(13,650)	(14,025)	(14,375)
Net current assets	12,225	5,550	6,550
Total assets less current liabilities	**45,225**	**45,825**	**47,575**
Capital and reserves			-
Called up share capital	11,250	11,250	11,250
Share premium account	22,500	22,500	22,500
Other reserves	8,200	10,150	11,425
Profit and loss account	3,275	1,925	2,400
	45,225	**45,825**	**47,575**

Other data

Profit before tax	2,400	2,550	3,975
Tax on annual profit	900	1,050	1,325
Tax paid during the year	750	900	1,050

Annual depreciation	1,613	1,950	2,250
Dividends declared and paid	900	900	900

Additional information:

i. In 2011, equipment was sold at a loss of Kshs. 525,000.

ii. A plant was purchased in 2021 at a cost of Kshs. 12,750,000

iii. Additional plant in 2022 cost Kshs. 3,000,000.

iv. Profit transferred to other reserves was Kshs. 1,950,000 and Kshs. 1,275,000 in 2021 and 2022 respectively.

Required:

Prepare the cash flow statement for 2021 and 2022 **(20 Marks)**