



Riara School of Business
Nurturing business innovators

JANUARY– APRIL 2023 TRIMESTER
EXAMINATION FOR BACHELOR OF BUSINESS ADMINISTRATION

DAY PROGRAMME

RFN 402: FINANCIAL ANALYSIS AND CORPORATE VALUATION

DATE: APRIL 2023
HOURS

TIME: 2

INSTRUCTIONS

- i) Answer question one and any other two**
 - ii) Marks allocated to each question are shown at the end of the question.**
 - iii) Arrange your work neatly and indicate the questions answered in the**
Examination booklet
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RFN402: FINANCIAL ANALYSIS AND CORPORATE VALUATION
QUESTION ONE COMPULSORY 30 MARKS

Auto Transmissions Ltd manufactures electrical equipment. The following trial balance as of 31 March 2020 has been extracted from the books of the company:

| | Shs 000 | Shs 000 |
|--|------------------|------------------|
| Ordinary shares of shs 50 each | | 400,000 |
| 10% Redeemable Preference shares of sh10 each | | 200,000 |
| Retained profits as at 1 April 2019 | | 42,475 |
| Office block (Land shs40,000,000) | 170,000 | |
| Plant and machinery | 730,000 | |
| Office equipment | 110,000 | |
| Motor vehicles | 200,000 | |
| Provision for depreciation – Plant and Machinery | | 224,500 |
| - Office equipment | | 24,500 |
| - Motor vehicles | | 80,000 |
| Accounts receivables/Payables | 500,000 | 356,226 |
| Provision for doubtful debts | | 1,000 |
| Manufacturing wages | 501,400 | |
| Inventory as at 1 April 2019 – raw materials | 70,000 | |
| - Work in progress | 126,000 | |
| - Finished goods | 250,000 | |
| Transport expenses | 85,013 | |
| Returns inwards | 15,106 | |
| Purchases of raw materials | 518,600 | |
| Sales | | 2,600,147 |
| Bank balance | | 60,020 |
| Directors' salaries | 60,114 | |
| Maintenance of plant | 30,102 | |
| Rent | 40,063 | |
| Advertising | 190,048 | |
| Rates | 50,171 | |
| Insurance | 20,116 | |
| Office salaries | 166,013 | |
| Light and heat | 46,027 | |
| Factory power | 30,014 | |
| Bank interest | 7,070 | |
| Interim dividends on preference shares | 10,000 | |
| General administration expenses | 63,011 | |
| | <u>3,988,868</u> | <u>3,988,868</u> |

Further information is as follows:

(1) Depreciation is to be provided as follows:

Plant and machinery 15% on cost. (Production expense)

| | |
|-------------------|--------------------------------------|
| Office equipment | 10% on cost (administration expense) |
| Motor vehicles | 25% on WDV (distribution cost) |
| New office blocks | 2% on cost (Administration expense). |

- (2) Prepayment of rates at 31 March 2020 was shs3,140,000
- (3) An insurance premium for public liability cover amounting to shs3,360,000 was paid for the year to 30 June 2020.
- (4) The amount owing for light and heat is shs1,214,000 and rent is shs2,321,000 as of 31 March 2020.
- (5) Rent, rates, light and heat and insurance are to be apportioned in the ratio of 5:1 in relation to factory and office expenses.
- (6) The provision for doubtful debts is to be maintained at 1% of the accounts receivable.
- (7) The production director acts as a factory manager, his salary is shs20,000,000. Office salaries include amounts paid to salesmen of shs64,237,000.
- (8) The corporation tax of shs100,000,000 is to be provided,
- (9) During the year 1,500,000 electrical equipment's were transferred from the factory to the warehouse. Only 100,000 pieces of equipment were in hand at the end of the year.
- (10) Inventory at cost as at 31 March 2020 was as follows:

| | |
|------------------|---------------|
| Raw materials | shs56,200,000 |
| Work in progress | shs47,190,000 |
| Finished goods | ? |

Required:

- (i) Prepare the published income statement for the year ended 31 March 2020 **(6marks)**
- (ii) A statement of financial position as at the same date. **(9 marks)**
- (iii) In a Board meeting held by the company on 2nd February,2023. The Chairman of the company proposed that since, the company was planning to merge with XYZ Ltd. There was a need to value the company before the merger.
 - (a) Describe the reasons for mergers and acquisitions. **(5marks)**
 - (b) Discuss the reasons for valuing a company. **(5marks)**
- (c) Describe the various users of the financial statement information's **(5marks)**

QUESTION TWO

(20 marks)

2(a) define the term risk and explain the reasons as to why companies must incur risks.

(5marks)

(b) Describe any five types of risks that a company in the manufacturing sector may face.

(5marks)

(c) Define the following terms as used in risk management

(i) likelihood of risk

- (ii) Impact of risk
- (iii) Risk Appetite
- (iv) Capital Asset Pricing Model (CAPM)
- (v) Risk Capacity

(5marks)

(d) Weighted Average Cost of Capital (WACC) is not a good measure of cost of capital of a firm. Discuss **(5marks)**

QUESTION THREE

(20 marks)

- (a) Ratio analysis is a strong tool of measuring financial performance of companies. Discuss **(10marks)**
- (b) Define the following categories of ratios!
 - (i) Profitability ratios
 - (ii) Liquidity ratios
 - (iii) Gearing or Leverage ratios
 - (iv) Efficiency or turnover ratios.
 - (v) Market or Shareholders ratios **(10marks)**

QUESTION FOUR

(20 marks)

4 a) Define the following terms as used in financial analysis

- i) Free cash flows (2mrks)
- ii) Incremental cash flows (2mrks)
- b) Describe the following Equity Multiple
 - i) Price/Sales ratio (2mrks)
 - ii) Dividend Yield (2mrks)
 - iii) Price/Book ratio (2mrks)
 - iv) Price/Earnings ratio. (2mrks)
 - v) Dividend Cover ratio (2mrks)

C) XYZ plc has earnings before interest and tax of \$200,000 for the current year.

Depreciation charges for the year have been \$5,000 and working capital has increased by \$2,000.

The company needs to invest \$20,000 to acquire non-current assets.

Profits are subject to taxation @ 30% p.a.

- Required: Calculate free cash flow. **(6mrks)**

