



MERU UNIVERSITY COLLEGE OF SCIENCE & TECHNOLOGY

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University Examinations 2011/2012

THIRD YEAR, SECOND SEMESTER EXAMINATIONS FOR THE DEGREE OF
BACHELOR OF COMMERCE

HBC220: FINANCIAL STATEMENT ANALYSIS

DATE: APRIL 2012

TIME: 2 HOURS

INSTRUCTIONS: Answer question *one* and any other *two* questions

QUESTION ONE (25 MARKS)

- Briefly explain the users of accounting information. (6 Marks)
- Financial statements basically give the accounting picture of the firms operations and financial position. Explain the main objectives of financial statements. (6 Marks)
- Briefly explain the importance of ratio analysis I financial analysis (6 Marks)
- Briefly explain the problems associated with cross sectional analysis (10 Marks)
- Explain the imitations of comparative financial statements. (2 Marks)

QUESTION TWO (20 MARKS)

- Highlight the importance of time series (5 Marks)
- The following information relates to Baba Co Ltd income statements as at 31th December 2010.

PARTICULARS	2008	2009	2010
Net sales	830,000	660,000	580,000
Cost of goodwill	450,000	352,000	254,000
Gross profit	200,000	148,000	86,000
Operating expenses	136,000	79, 000	54,000
Net operating profit	74,000	79, 000	42,100
Interest expenses	8,000	45,000	35,000
Profit before tax	88,000	65,000	59,000
Provision for taxes	55,000	65,000	44,000
Profit after tax	63,000	60,000	45,000

Required:

Prepare a common size income statement and make a brief comment (15 Marks)

QUESTION THREE (20 MARKS)

- a. Define the term financial distress and their causes (6 Marks)
- b. Briefly discuss the interested parties in predicting financial distress (7 Marks)
- c. Explain the cost of financial distress (7 Marks)

QUESTION FOUR (20 MARKS)

- a. Describe this term forecasting and state its objectives (10 Marks)
- b. Explain the types of forecast and parties that make use of financial forecast (10 Marks)

QUESTION FIVE (20 MARKS)

WZY Ltd provided the following financial statements of profits for the year ended 31st December 2010.

	Ksh.(000)
Sales	6,000
Less cost of goods sold	<u>4,200</u>
	1,800
Less interests	240
Less 50% taxation	780
	<u>780</u>

Dividends declared on equity shares 230,000

Balance sheets.

	2009	210		2009	2010
Cash	300	240	equity's capital	3,000	3,000
Debtors	480	600	retained earnings	702	1,278
Investments	300	480	10% debentures	2,400	2,400
Stocks	2,760	3,240	liabilities	960	1,200

Prepaid expenses 42 18

Fixed assets 4,518 4,578

From the information calculate:

- i. Liquidity ratio (5 Marks)

- ii. Solvency ratio (5 Marks)
- iii. Profitability ratio (5 Marks)
- iv. Activity ratio (5 Marks)