

FINANCIAL STATEMENT ANALYSIS

Lecture 13

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END OF SEMESTER ASSESSMENT

FINANCIAL STATEMENT ANALYSIS

Instructions:

Answer ALL questions

Question one

a. Top Scan Ltd accountant collected the company data and tabulated it as below;

	Amount in millions				
	2016	2017	2018	2019	2020
Working capital	48.777	160.587	159.256	55.276	76.376
Total assets	8297.41	7972.43	8025.27	8734.66	8562.27
A (working capital/total assets)					
Retained earnings	859.047	838.721	836.235	839.254	836.365
B (retained earnings/ total assets)					
Earnings before interest and taxes	260.467	360.622	486.267	512.264	601.264
C (earnings before interest and taxes/ total assets)					
Book value of equity	1080	1206	1309	1024	1425
Total liabilities	8186.69	7770.43	7682.26	7926.26	8046.37
D (book value of equity/ total liabilities)					
Sales	2094.65	1853.15	1927.26	1998.26	1945.28
E (sales / total assets)					
Z score					

Required

1. Fill in the table and calculate the Z-Score for the five years. (10 marks)
2. Interpret the results obtained above focusing on the solvency of the company. (5 marks)

- b. Using appropriate examples differentiate between bankruptcy and insolvency. (4 marks)
- c. Discuss four bases of comparison that a financial analyst can use during ratio analysis. (8 marks)
- d. Distinguish between financial statement analysis and business analysis. (2 marks)
- e. The information below relates to the performance of Neema Holdings;

	2016	2017	2018	2019	2020
Net Sales	775,000	760,000	830,000	875,000	910,000
Cost of goods sold	460,000	441,000	483,000	510,000	573,000
Gross profit	315,000	319,000	347,000	365,000	337,000

Required

Calculate the trend percentages using 2016 as the base year. (5 marks)

- f. Using appropriate examples, explain the three key types cash flows in a business entity. (6 marks)

Question two

Company A, Company B, and Company C are in the same industry. The Income Statements for Company A, Company B, and Company C are presented below;

	A	B	C
Sales	10,000,000	10,000,000	2,000,000
Cost of sales	3,000,000	7,500,000	600,000
Gross profit	7,000,000	2,500,000	1,400,000
Selling, general, and administrative expenses	1,000,000	1,000,000	200,000
Research and development	2,000,000	–	400,000
Advertising	2,000,000	–	400,000
Operating profit	2,000,000	1,500,000	400,000

Required

Use common size analysis to evaluate the performance of the three companies. (15 marks)

Question three

The following are financial statements of Koch Ltd for the year ended 31 December 2020

Koch Ltd
Statement of comprehensive income
For the year ended 31st December 2020

Revenue	900,000
Cost of sales	<u>(475,000)</u>
Gross profit	425,000
Less	
Operating expenses	(220,000)
Interest	(13,000)

Loss on sale of equipment	<u>(2, 000)</u>
Net profit before tax	190, 000
Tax	<u>(65, 000)</u>
Net profit after tax	<u>125, 000</u>

Koch Ltd
Statements of financial position
As at 31 December

	2020	2019
Noncurrent assets		
Land	55, 000	80, 000
Buildings	200, 000	200,000
Less depreciation	(20, 000)	(10, 000)
Equipment	183, 000	58, 000
Less depreciation	<u>(28, 000)</u>	<u>(10, 000)</u>
Total noncurrent assets	<u>390, 000</u>	<u>318, 000</u>
Current assets		
Stock	50, 000	0
Prepaid expenses	3, 000	5, 000
Debtors	67,000	25, 000
Cash	<u>55, 000</u>	<u>38, 000</u>
Total current assets	<u>175, 000</u>	<u>68, 000</u>
Total assets	<u>565, 000</u>	<u>386, 000</u>
Equity and liabilities		
Ordinary share capital	230, 000	70, 000
Retained income	<u>196, 000</u>	<u>126,000</u>
	<u>426, 000</u>	<u>196, 000</u>
Noncurrent liabilities		
Debentures	<u>106, 000</u>	<u>150, 000</u>
Current liabilities		
Creditors	<u>33, 000</u>	<u>40, 000</u>
	<u>565, 000</u>	<u>386, 000</u>

Additional information:

- a. Depreciation amounting to \$33, 000 and amortization of prepaid expenses of \$2, 000 are included in operating expenses.
- b. Equipment that cost \$41, 000, with a book value of \$36, 000 was sold for \$34, 000.
- c. Dividends of \$55, 000 were declared and paid during the year.

Required

Prepare a statement of cash flows.

(15 marks)