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UNIVERSITY EXAMINATIONS 2024/2025

THIRD YEAR FIRST SEMESTER EXAMINATION FOR DEGREE OF BACHELOR OF
BUSINESS ADMINISTRATION

BFC 3331: FINANCIAL PERFORMANCE EVALUATION

DATE: JANUARY 2025

TIME: 2 HOURS

INSTRUCTIONS: Answer Question ONE and any other TWO questions.

QUESTION ONE (30 MARKS)

- a) Explain the Limitations of Financial performance evaluation (10 marks)
- b) Explain the various Limitations on use of ratios in analysis of financial performance (10 marks)
- c) The following information relates to Mutongoi Limited-

	Sh.000
Purchase or raw material	6,700
Usage or material	6,500
Sale or finished goods (all on credit)	25,000
Cost of sales (Finished goods)	18,000
Average creditors	1,400
Average raw materials stock	1,200
Average work in progress	1,000
Average finished goods stock	2,100
Average debtors	4, 700

Assume a 365 days year.



Required:

The length or the operating cash cycle.

QUESTION TWO (20 MARKS)

The top management of Zedrock Limited has provided you with the following financial statements relating to its two divisions, alpha and beta, for the year ended 30 June 2012

Income statement for the year ended 30 June 2012

	Alpha Division	Beta Division
	Sh. "millions"	Sh. "millions"
Revenue	4,000	6,000
Cost of sales	<u>(3.000)</u>	<u>(4.800)</u>
Gross profit	1,000	1 200
Expenses:		
Distribution costs	200	150
Administrative expenses	290	250
Interest paid	<u>10</u>	<u>400</u>
Profit before tax	500	400
Income tax expense	<u>(120)</u>	<u>(90)</u>
Profit after tax	380	310
Dividend paid	<u>(150)</u>	<u>(100)</u>
Retained profit for the year	230	210
Retained profit brought forward	<u>220</u>	<u>2 480</u>
Retained profit carried forward	<u>450</u>	<u>2,6900</u>

Statement of financial position as at 30 June 2012:

	Alpha Division	Beta Division
	Sh. "millions"	Sh. "millions"
Non-current assets at cost:		
Land and buildings	1,200	5 000
Furniture and motor vehicles	<u>600</u>	<u>1 000</u>
Current assets:	1,800	6,000
Inventory	400	800



Trade receivables	850		750	
Financial assets	100		230	
Cash at bank	=	<u>1,350</u>	<u>100</u>	<u>1,880</u>
Total assets		<u>3,150</u>		<u>7,880</u>
Equity and liabilities:				
Ordinary share capital(sh 1 par value)		1,000		1,600
Retained profits		<u>450</u>		<u>2,690</u>
		1,450		4,290
Non-current liabilities:				4,290
Bank loan		5 00		3,000
Current liabilities:				
Accounts payable	1,080		590	
Bank overdraft	120	<u>1 200</u>	<u>==</u>	<u>590</u>
		<u>3,150</u>		<u>7,880</u>

Additional information:

1. The two divisions sell goods on both cash and credit terms. On average, the credit sales account for 80% of the total sales while purchases account for 90%
2. The cash flow from operating activities for the two divisions are sh.750 millions and sh.800 million respectively.
3. The division deal with electronic goods.

Required:

- a) Common size income statement for the year ended 30th June 2012 (10 marks)
- b) Common size statement of financial position as at 30th June 2012 (10 marks)

QUESTION THREE (20 MARKS)

The following information was extracted from the financial statements of Sunrise Ltd. And Sunset Ltd. in respect of the year ended 30 September 2005:



Income statement extracts for the year ended 30 September 2005:		
	Sunrise Ltd.	Sunset Ltd.
	Shs. '000'	Shs. '000'
Sales	497,000	371,000
Cost of sales	258,000	153,000
Operating profit	138,000	79,000
Interest expense	19,000	-
Balance sheet extracts as at 30 September 2005:		
	Sunrise Ltd.	Sunset Ltd.
	Shs. '000'	Shs. '000'
Non-current assets	142,000	92,000
Current assets:		
Inventory	100,000	87,000
Debtors	46,000	42,000
Cash at bank	40,000	44,000
Current liabilities	98,000	108,000
Long -term loan	33,000	-
Shareholders funds	197,000	157,000

Required:

- a) For each company, compute the following ratios:
- i. Acid test ratio (3 marks)
 - ii. Inventory turnover (3 marks)
 - iii. Average collection period (3 marks)
 - iv. Return on capital employed (3 marks)
 - v. Debt equity ratio (3 marks)
- b) On the basis of the ratios computed in (b) above, comment on the overall Performance of Sunrise Ltd. and Sunset Ltd. and advise which of the two companies would provide better investment. (5 marks)

QUESTION FOUR (20 MARKS)

- a) Outline two types of information which could be obtained from the following sources:
- i. Proxy statement (2 marks)
 - ii. Corporate press release (2 marks)
 - iii. Annual reports to regulators (2 marks)
- b) The following information relates to Bridgeview company LTD. The figures are in millions.

BRIDGEVIEW COMPANY LTD

STATEMENT OF FINANCIAL POSITION AS AT 31st DECEMBER

Non-current Assets	2010	2011
Net plant and equipment	2,731	2,880
Current assets		
Cash	84	98
Accounts receivables	165	188
Inventory	393	422
Total current assets	642	708
Total assets	3,373	3,588
Liabilities and owners' equity		
Current liabilities		
Accounts payable	312	344
Notes payable	231	196
Total current liabilities	543	540
Long term debt	531	457
Owners' equity		
Common stock and paid-in surplus	500	550
Retained earnings	1,799	2,041
Total	2,299	2,591
Total liabilities and equity	3,373	3,588



Income statement for 2011

Sales	2,311
Cost of goods sold	1,344
Depreciation	276
Earnings before interest and Tax	691
Interest paid	141
Taxable income	550
Taxes (34%)	187
Net income	363
Dividends	121
Retained earnings	242

Assume also that 33 million shares were outstanding at the end of 2010 and 2011. Market price per share is ksh. 88

Using the financial statement of 2011 of Bridgeview Company, Calculate the Z-score for the company and interpret the results. (14 marks)

QUESTION FIVE(20MARKS)

During the year ended 31/12/2008, A Ltd. had estimated the corporation tax for the year to be £100,000. The amount was still outstanding as at 31/12/08. During the year ended 2009, on 30th June the actual amount payable was agreed with the tax authorities and eventually paid. Meanwhile during the year 2009, the company paid additional investment taxes of £80,000. As at the end of the year the company the company estimated that he payable for year 2009 will be £120,000.

Required:

Compute the income tax expense and the balance sheet liability for year 2009 assuming that;

- The actual tax paid for year 2008 was £90,000 (12 marks)
- The actual tax paid for year 2008 was £110,000. (8 marks)

