



**National University of
Science and Technology**
Think in Other Terms



FACULTY OF COMMERCE
DEPARTMENT OF FINANCE
MASTER OF SCIENCE IN FINANCE AND INVESTMENT
SUPPLEMENTARY EXAMINATION – JULY 2015
FINANCIAL STATEMENT ANALYSIS AND PLANNING [CFI 5101]

TIME ALLOWED: THREE (3) HOURS

INSTRUCTIONS TO CANDIDATES

1. Answer **ALL** Questions
2. Write neatly and legibly.

INFORMATION TO CANDIDATES

1. This paper contains **FOUR (4)** Questions.
2. This paper contains **FIVE (5)** printed pages.
3. The businesses and persons in this question paper are intended to be fictitious.

QUESTION 1 (30 MARKS)

The following information relates to Paid Ltd,

Balance sheet balances at	31 March 2013	31 March 2014
	\$	\$
Capital	205 000	182 500
Accumulated profits	18 500	7 000
Long term loan from BB Bank	20 000	25 000
Land & buildings @ cost	155 000	145 000
Machinery & equipment @		
Carrying amount	79 500	74 500
Inventory	22 500	18 500
Debtors	31000	26 500
Bank	2 500 CR	1 500DR
Creditors	15 000	13 500
Current portion of long term		
Loan	5 000	15 000
Income tax payable	4 500	6 500
Profit distribution payable	16 000	14 000
Accrued expenses- wages	3 500	2 500
Prepaid expenses-insurance	2 000	-

Additional

Depreciation on machinery and equipment to the amount of \$13 500 was to taken into account.

During the year machinery and equipment with a carrying amount of \$7 500 was sold for cash at a loss of \$2 500

Land & buildings sold for cash during the year \$15 000

All additions to property plant and equipment were paid

The provision for income tax for the year ended 31 March 2014 amounted \$20 850

Profit for the year ended 31 March 2014 amounted to \$18 000

According to the income statement of Paid Ltd for the year ended 31 March 2014 the cost of sales and gross profit amounted to \$54 500 and \$243 500 respectively. The interest expense on long term loan was shown as \$4 250.

Required

Show the calculations for

- (a) the cash receipts from customers if the amount is \$291 500 for 2012
- (b) Cash paid to suppliers and employees if the amount is \$228 945 for 2012
- (c) Prepare the cash flow statement using the direct method and the respective reconciliation of profit before taxation with cash generated from operations.

(Each answer is 10 marks)

QUESTION 2 [30 MARKS]

P Ltd, a public limited company, has prepared its financial statements for the year ended 31 October 2011. The following information relates to those financial statements.

	<u>2013</u> <u>\$000 000</u>	<u>2012</u> <u>\$000 000</u>
Group revenue	250	201
Gross profit	45	35
Profit from operations	10	9
Profit before taxation	12	8
Net profit for the period	5	4
Non-current assets	42	36
Current assets	55	43
Current liabilities	25	24
B&B-term loans	13	9
Capital and reserves	59	46

The company expects to achieve growth in retained earnings of about 20% in the year to 31 October 2013. Thereafter retained earnings are expected to accelerate to produce growth of between 20% and 25%. The growth will be generated by the introduction of new products and business efficiencies in manufacturing and in the company's infrastructure.

P Ltd manufactures products from aluminium and other metals and is one of the largest producers in the world. Production for 2012 increased by 18% through the

acquisition of a competitor company, increased production at three of its plants and through the regeneration of old plants. There has been a recent growth in the consumption of its products because of the substitution of aluminium for heavier metals in motor vehicle manufacture. Cost reductions continued as a business focus in 2012 and P Ltd has implemented a cost reduction programme to be achieved by 2014.

In the period 2012 to 2014 P Ltd expects to spend around 40 million on research and development and investment in non-current assets. The focus of the investments will be on enlarging the production capabilities. An important research and development project will be the joint project with a global car manufacturer to develop a new aluminium alloy car body.

The directors of P Ltd have attempted to minimise the financial risk to which the group is exposed. The company operates in the global market place with the inherent financial risk that this entails. The management have performed a sensitivity analysis assuming a 10% adverse movement in foreign exchange rates and interest rates applied to hedging contracts and other exposures. The analysis indicated that such market movement would not have a material effect on the company's financial position.

P Ltd has a reputation for responsible corporate behaviour and sees the work force as the key factor in the profitable growth of the business. During the year the company made progress towards the aim of linking environmental performance with financial performance by reporting the relationship between the eco-productivity index for basic production, and water and energy costs used in basic production. A feature of this index is that it can be segregated at site and divisional level and can be used in the internal management decision-making process.

The directors of P Ltd are increasingly seeing their shareholder base widen with the result that investors are more demanding and sophisticated. As a result, the directors are uncertain as to the nature of the information which would provide clear and credible explanations of corporate activity. They wish their annual report to meet market expectations and not just the basic requirements of company law. They have heard that many companies deal with three key elements of corporate activity, namely reporting business performance, the analysis of the financial position, and the nature of corporate citizenship, and have asked your firm's advice in drawing up the annual report.

Required:

Prepare the annual report to the share holders of P Ltd for the year ended 31 October 2013 setting out the business performance and analysis of the financial position of the company.

QUESTION 3 [20 MARKS]

Businesses need to be valued for a number of reasons such as their purchase and sale, obtaining a listing, inheritance tax and capital gains tax computations. Generally, valuation difficulties are restricted to unlisted companies because listed companies have a quoted share price. However, even listed companies can present valuation challenges for example when one is trying to predict the effect of a takeover on the share price.

Whenever a company is bought what the new owners have a right depends on the stake they hold:

Required:

Elaborate on the methods of valuation used to establish the business worthiness and the conditions that must be fulfilled for the methods to operate.

QUESTION 4 [20 MARKS]

Valuation based on shareholders' rate of return earned from a listed company.

The following information relates to a listed Company A. Statistics of the company, Company A, to be valued:

Dividend/share just paid = 12c

Historical dividend growth rate = 5%/year. This is expected to be maintained in the future.

Statistics of a suitable listed company (same business and same gearing): Share price = \$2.40

Dividend just paid = 22c

Historical dividend growth rate = 10%/year. This is expected to be maintained in the future. Company B is unlisted and want to know the valuation of the business for strategic planning purposes.

Required:

Calculate the share value of the unlisted Company B which operates in the same industry with Company A. Show all workings.

END OF EXAMINATION