



CCP INTERMEDIATE LEVEL

FINANCIAL STATEMENTS ANALYSIS FOR CREDIT MANAGERS

WEDNESDAY: 23 April 2025. Morning Paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.

QUESTION ONE

- (a) (i) With reference to financial statement analysis, explain the meaning of swing factors as used in lending decision making. (2 marks)
- (ii) Describe **FOUR** swing factors that could influence a lending decision. (8 marks)
- (b) The following trial balance was extracted from the books of Jaramba Traders as at 31 March 2025:

	Sh."000"	Sh."000"
Inventory (1 April 2024)	70,000	
Purchases	238,028	
Returns outward		6,440
Cash in hand	18,760	
Bank	45,724	
Buildings at cost	70,000	
Sundry expenses	1,176	
Stationery	2,296	
Legal fees	392	
Expected credit loss		4,900
Trade receivables	50,400	
Trade payables		55,538
Salaries	54,600	
Capital		163,520
Selling and distribution costs	2,240	
Discount allowed	8,820	
Discount received		6,440
Sales		321,930
Equipment at cost	7,000	
Rates and insurance	5,600	
Returns inward	2,170	
Accumulated depreciation:		
Buildings		15,960
Equipment		2,478
	<u>577,206</u>	<u>577,206</u>

Additional information:

- Inventory as at 31 March 2025 was valued at Sh.72,800,000.
- Expected credit loss is to be increased to Sh.7,000,000.
- Rates due as at 31 March 2025 amounted to Sh.700,000.
- Drawings amounting to Sh.14,000,000 have been debited to the capital account.
- Depreciation is to be charged on cost as follows:

Buildings	5% per annum
Equipment	10% per annum
- Insurance amounting to Sh.280,000 relates to the year ending 31 March 2026.

Required:

Statement of profit or loss for the year ended 31 March 2025.

(10 marks)  
(Total: 20 marks)

## QUESTION TWO

- (a) (i) Explain **TWO** ways on how a downgrade of credit rating from AAA to BBB might affect a country's borrowing costs and economic stability. (4 marks)
- (ii) Evaluate **THREE** strategies a country could implement to improve its credit rating after a downgrade from AAA to BBB. (6 marks)
- (b) The following information was extracted from the books of ABC Traders for the month of March 2025:
- Trade receivables as at 1 March 2025 Sh.500,000.
  - Sales on credit on 10 March 2025 Sh.300,000.
  - Payments received from customers on 20 March 2025 Sh.200,000.
  - Included in the amount received from customers is an amount of Sh.50,000 for the month of April 2025.
  - Trade receivables outstanding as at 31 March 2025 was Sh.80,000.

### Required:

Calculate the balance of the trade receivables at the end of the month of March 2025. (2 marks)

- (c) Examine **FOUR** differences between “financial reporting” and “financial statement analysis”. (8 marks)
- (Total: 20 marks)**

## QUESTION THREE

- (a) You are the credit analyst of Mufasa Bank. Your client a corporate customer has presented the following extract from their financial statements for consideration for a loan facility.

Extract from cash flow statement and statement of financial position.

	Sh.
Operating cash flow (OCF)	150,000,000
Cash and cash equivalents	50,000,000
Marketable Securities	20,000,000
Accounts receivable	30,000,000
Current assets (total)	150,000,000
Current liabilities	100,000,000

### Required:

Calculate and interpret the following:

- (i) Current ratio. (2 marks)
- (ii) Quick ratio (Acid-Test). (2 marks)
- (iii) Operating cash flow to current liabilities (OCF to CL). (2 marks)
- (b) Based on your analysis above, justify whether or not the client is suitable for a loan facility. (2 marks)
- (c) You are the credit analyst at Jitegemee Microfinance. Your client XYZ Ltd., a manufacturing company, has applied for a Sh.10 million loan facility and has submitted financial statements that depict steady revenue growth and high profitability. The company appears financially strong with impressive liquidity and low debt ratios.

However, during the credit analysis you note inconsistencies between reported revenues and actual cash flows. Further scrutiny reveals that XYZ Ltd. has inflated its sales figures by recognising revenue from unfulfilled orders and recording fictitious transactions with related parties. The company's liquidity ratio also seem artificially improved because short-term loans are disguised as revenue.

With reference to the above:

- (i) Identify **THREE** areas that could help you detect manipulation of financial statements. (6 marks)
- (ii) Recommend **THREE** remedies that could help cure manipulation of financial statements mentioned in (c) (i) above. (6 marks)

**(Total: 20 marks)**

#### QUESTION FOUR

(a) The following data was provided by Ukeli's credit manager for the month of February 2025 and March 2025:

- Initial Cash Conversion Cycle (CCC) = 55 days
- Reduction in Days Inventory Outstanding (DIO) = 15 days
- Increase in Days Payable Outstanding (DPO) = 10 days
- Days Sales Outstanding (DSO) = 30 days

**Required:**

(i) Calculate the new CCC. (2 marks)

(ii) A credit manager plays a crucial role in assessing and managing a company's credit risk, ensuring smooth cashflow and minimising bad debts.

With reference to the above statement, explain **FOUR** advantages that will accrue to the credit manager as a result of shortening the CCC. (8 marks)

(b) John Paul is a senior credit analyst at Rafiki Bank. One of his key responsibilities is to assess loan applications from businesses to determine their creditworthiness. Recently, Rhino King Manufacturing, a medium-sized company in the automotive parts industry, applied for a long-term loan to expand its production capacity.

With reference to the above statement, analyse **FIVE** processes of evaluating the firm's ability to meet long-term financial obligations. (10 marks)

**(Total: 20 marks)**

#### QUESTION FIVE

(a) Explain **FOUR** limitations of using a statement of financial position when appraising a corporate customer for a loan facility. (8 marks)

(b) The following information was extracted from the books of Pumba Ltd. for the period ending 31 March 2025:

**Statement of changes in equity**

Particulars	Share capital Sh.	Retained earnings Sh.	Other reserves Sh.	Total equity Sh.
Balance at the start of the period	500,000	1,000,000	200,000	1,700,000
Net profit	-	250,000	-	250,000
Other comprehensive income	-	-	50,000	50,000
Dividends paid	-	(100,000)	-	(100,000)
Issue of shares	150,000	-	-	150,000
Transfer of reserves	-	(50,000)	50,000	-
Balance at the end of the period	650,000	1,100,000	300,000	2,050,000

You are the credit analyst of Pendo Bank. Pumba Ltd. who are your customers have presented you with the above statement so that you appraise the company for a long-term loan facility.

**Required:**

Appraise Pumba Ltd.'s financial position and recommend whether the company qualifies for the loan facility. (12 marks)  
**(Total: 20 marks)**

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CCP INTERMEDIATE LEVEL

FINANCIAL STATEMENTS ANALYSIS FOR CREDIT MANAGERS

TUESDAY: 3 December 2024. Morning Paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.

QUESTION ONE

- (a) Highlight **FOUR** operating components of an income statement. (4 marks)
- (b) State **TWO** limitations of financial statements analysis. (2 marks)
- (c) Discuss **TWO** financial ratios used in the Z-score model. (4 marks)
- (d) The following statements of financial position were extracted from the books of Mambo Leo Ltd. for the years ended 30 September 2024 and 30 September 2023:

	2024	2023
	Sh. "000"	Sh. "000"
<b>Assets:</b>		
Property, plant and equipment	13,500	11,700
Long term investments	750	900
Goodwill	6,750	7,050
Current assets	<u>75,000</u>	<u>64,500</u>
	<u>96,000</u>	<u>84,150</u>
<b>Capital and liabilities:</b>		
Ordinary share capital	40,000	20,000
Retained earnings	6,500	1,150
Non-current liabilities	18,000	27,000
Current liabilities	<u>31,500</u>	<u>36,000</u>
	<u>96,000</u>	<u>84,150</u>

**Required:**

Vertical analysis of the statement of financial position as at 30 September 2023 and 30 September 2024. (10 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Outline **TWO** impacts of credit policy on working capital management. (2 marks)
- (b) The following statements were obtained from the financial records of Summit Ltd. for the years ended 30 September 2024 and 30 September 2023:

**Summit Ltd.**

**Statement of financial position as at 30 September:**

	2024	2023
	Sh. "000"	Sh. "000"
<b>Non-current assets:</b>		
Land	3,698	3,698
Buildings	34,142	32,988
Machinery and equipment	66,808	57,952
Accumulated depreciation	<u>(44,210)</u>	<u>(37,828)</u>
	60,438	56,810

	Sh. "000"	Sh. "000"
<b>Current assets:</b>		
Inventory	73,632	67,622
Trade receivables	91,314	79,328
Bank	14,522	20,962
Prepaid expenses	<u>7,680</u>	<u>6,954</u>
	<u>247,586</u>	<u>231,676</u>
<b>Capital and liabilities:</b>		
Ordinary share capital	37,500	32,500
10% preference share capital	20,000	20,000
Share premium	30,800	24,600
Retained earnings	<u>57,541</u>	<u>63,283</u>
	145,841	140,383
<b>Non-current liabilities:</b>		
12% bank loan	45,000	40,000
<b>Current liabilities:</b>		
Trade payables	42,716	40,490
Accrual: Loan interest	2,180	2,420
Wages	4,651	3,787
Corporation tax	<u>7,198</u>	<u>4,596</u>
	<u>247,586</u>	<u>231,676</u>

**Required:**

Trend analysis statement of financial position as at 30 September 2024.

(8 marks)

- (c) The following information relates to Big Point Ltd. for the years ended 31 July 2024 and 31 July 2023:

**Big Point Limited**

**Statement of financial position as at 31 July:**

	2024 Sh.	2023 Sh.
<b>Non-current assets:</b>		
Property, plant and equipment (net book value)	825,000	737,500
<b>Current assets:</b>		
Inventory	150,000	125,000
Trade receivables	87,500	87,500
Bank and cash	<u>37,500</u>	<u>50,000</u>
Total assets	<u>1,100,000</u>	<u>1,000,000</u>
<b>Capital and liabilities:</b>		
Ordinary share capital	600,000	550,000
Retained earnings	<u>337,500</u>	<u>300,000</u>
	937,500	850,000
<b>Current liabilities:</b>		
Trade payables	50,000	62,500
Accrued expenses	37,500	25,000
Tax payable	<u>75,000</u>	<u>62,500</u>
	<u>1,100,000</u>	<u>1,000,000</u>

**Statement of profit or loss for the year ended 31 July 2024:**

	Sh.	Sh.
Sales		1,200,000
Cost of sales		(825,000)
Gross profit		375,000
Administrative expenses	112,445	
Distribution	60,745	
Other operating expenses	<u>14,310</u>	(187,500)
Profit before tax		187,500
Corporation tax		(87,500)
Net profit after tax		<u>100,000</u>

**Additional information:**

- There was neither revaluation nor disposal of non-current assets.
- Administrative expenses include a depreciation charge of Sh.25,000.

**Required:**

Statement of cash flow for the year ended 31 July 2024 in conformity with requirements of International Accounting Standard (IAS) 7 "Statement of cash flow". (10 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- (a) Highlight **FOUR** qualities that financial statements presented to a credit manager by a customer who is seeking for credit service should contain. (4 marks)
- (b) Differentiate between "conservative accounting" and "aggressive accounting". (4 marks)
- (c) Nyakiabi Limited expects to pay a dividend per share of Sh.7 next year which is expected to grow at a rate of 6% per annum.

The company's policy is to retain 30% of its earnings. The cost of capital is 10%.

**Required:**

- (i) The expected earnings per share (EPS) for the next year. (2 marks)
- (ii) The return on equity (ROE). (2 marks)
- (iii) The value of growth opportunities. (2 marks)
- (d) Bei Yetu Limited is in the process of determining the optimal cash level it should hold in the next financial year. The finance department has established that annual cash requirement for the company is Sh.10,000,000. The fixed cost of selling securities to raise cash per transaction is Sh.2,000. The opportunity cost of holding cash is 12%.

**Required:**

Using the Baumol model of cash management, determine:

- (i) The optimal cash balance that the company should hold. (2 marks)
- (ii) Annual cash holding cost. (2 marks)
- (iii) Annual cash ordering cost. (2 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) Outline **FOUR** differences between "cash flows" and "profits" in establishing the ability to pay debts. (4 marks)
- (b) The following trial balance as at 31 October 2024 was extracted from the financial records of Classic Limited with a view of presentation of financial statements for the use in the credit analysis:

	Sh."000"	Sh."000"
Ordinary share capital (Sh.10 par value)		90,000
Share premium		45,000
Retained profit (1 November 2023)		21,680
14% bank loan		15,000
Property at cost (land: Sh.34.5 million)	94,500	
Plant and equipment at cost	109,600	
Motor vehicles at cost	9,600	
Fixtures and fittings at cost	20,000	
Accumulated depreciation (1 November 2023):		
• Buildings		28,500
• Plant and equipment		38,200
• Motor vehicles		3,840
• Fixtures and fittings		10,000
Sales revenue		535,800
Inventory (1 November 2023)	56,565	
Purchases	267,255	
Distribution costs	53,310	
Administrative expenses	62,010	

	Sh. "000"	Sh. "000"
Trade receivables	32,260	
Bank balance	18,100	
Trade payables		25,980
Current tax	1,750	
Interest paid	1,050	
Intangible assets at cost	132,000	
Accumulated amortisation (1 November 2023)		<u>44,000</u>
	<u>858,000</u>	<u>858,000</u>

**Additional information:**

1. Inventory count at 31 October 2024 revealed the value of inventory at a cost of Sh.54,400,000.
2. Depreciation on tangible non-current assets is provided and allocated as follows:

	Asset	Rate per annum	Basis	Allocation
	Buildings	2.5%	Straight-line	Administrative
	Plant and equipment	15%	Reducing balance	Cost of sales
	Motor vehicles	20%	Straight-line	Distribution
	Fixtures and fittings	10%	Straight-line	Administrative
3.	The intangible assets have an estimated economic useful life of six years. Amortisation is classified as an administrative expense.			
4.	The 14% bank loan was obtained on 1 March 2024. Interest on the loan is payable semi-annually on 31 August and 28 February each year.			
5.	The balance on the current tax in the trial balance represents the advance tax paid during the year to 31 October 2024. A provision for current tax of Sh.32,200,000 for the year is required.			

**Required:**

- (i) Statement of profit or loss for the year ended 31 October 2024. (6 marks)
  - (ii) Statement of financial position as at 31 October 2024. (10 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) Explain the following sources of non-financial information for credit analysts:
  - (i) Integrated report. (2 marks)
  - (ii) Business greening report. (2 marks)
  - (iii) Sustainability report. (2 marks)
- (b) Differentiate between "qualitative skills" and "quantitative skills" for credit analysis. (4 marks)
- (c) The following are summarised financial statements of MNM Ltd. from the year ended 30 June 2024 and 30 June 2023:

	2024 Sh. "000"	2023 Sh. "000"
Revenue	7,332	8,000
Cost of sales	<u>(3,732)</u>	<u>(4,000)</u>
Gross profit	3,600	4,000
Administrative expenses	<u>(1,400)</u>	<u>(1,600)</u>
Profit before interest and tax	2,200	2,400
Interest	<u>(240)</u>	<u>(268)</u>
Income tax expenses	<u>(660)</u>	<u>(720)</u>
Net profit after tax	1,300	1,412
Dividends	<u>400</u>	<u>400</u>
Net profit	<u>900</u>	<u>1,012</u>

**Statements of financial position as at 30 June:**

	<b>2024</b>	<b>2023</b>
	<b>Sh. "000"</b>	<b>Sh. "000"</b>
Non-current assets	8,200	8,000
<b>Current assets:</b>		
Inventories	900	800
Trade receivables	992	1,068
Cash and cash equivalent	80	132
	<u>1,972</u>	<u>2,000</u>
<b>Total assets</b>	<u>10,172</u>	<u>10,000</u>
<b>Capital and liabilities:</b>		
<b>Equity:</b>		
Issued share capital	2,000	2,000
Reserves	<u>5,092</u>	<u>4,800</u>
	7,092	6,800
<b>Non-current liabilities:</b>		
Long-term bank loan	2,000	2,400
<b>Current liabilities:</b>		
Trade payables and accruals	<u>1,080</u>	<u>800</u>
<b>Total equity and liabilities</b>	<u>10,172</u>	<u>10,000</u>

**Required:**

For each of the two years, compute the following ratios:

- (i) Liquidity ratio. (2 marks)
- (ii) Acid test ratio (quick ratio). (2 marks)
- (iii) Asset turnover. (2 marks)
- (iv) Capital gearing. (2 marks)
- (v) Cash ratio. (2 marks)

**(Total: 20 marks)**

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## CCP INTERMEDIATE LEVEL

### FINANCIAL STATEMENTS ANALYSIS FOR CREDIT MANAGERS

TUESDAY: 20 August 2024. Morning Paper.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.

#### QUESTION ONE

- (a) List **FOUR** sources of information for credit analysis. (4 marks)
- (b) The following financial statements relate to F Ltd. and L Ltd. for the year ended 31 March 2024.

#### Income statement for the year ended 31 March 2024:

	F Ltd.		L Ltd.	
	Sh. "000"	Sh. "000"	Sh. "000"	Sh. "000"
Sales		6,000		9,000
<b>Cost of sales:</b>				
Opening inventory	300		1,200	
Purchases	4,800		7,200	
Closing inventory	<u>(600)</u>	<u>(4,500)</u>	<u>(1,200)</u>	<u>(7,200)</u>
Gross profit		1,500		1,800
<b>Expenses:</b>				
Distribution cost	300		225	
Administrative expense	435		375	
Finance cost	<u>15</u>	<u>(750)</u>	<u>600</u>	<u>(1,200)</u>
Net profit before tax		750		600
Corporation tax	<u>(180)</u>	<u>(180)</u>	<u>(135)</u>	<u>(135)</u>
Profit after tax		570		465
Dividend paid	<u>(225)</u>	<u>(225)</u>	<u>(150)</u>	<u>(150)</u>
Retained profit for the year		345		315
Retained profit brought down		<u>330</u>		<u>3,720</u>
Retained profit carried down		<u>675</u>		<u>4,035</u>

#### Statement of financial statement as at 31 March 2024:

	F Ltd.		L Ltd.	
	Sh. "000"	Sh. "000"	Sh. "000"	Sh. "000"
<b>Non-current assets:</b>				
Land and building		1,800		7,500
Furniture and fittings		900		1,500
<b>Current assets:</b>				
Inventory	600		1,200	
Trade receivables	1,275		1,125	
Financial assets	150		345	
Bank	<u>-</u>	<u>2,025</u>	<u>150</u>	<u>2,820</u>
Total assets		<u>4,725</u>		<u>11,820</u>
<b>Capital and liabilities:</b>				
Ordinary share capital		1,500		2,400
Retained profit		<u>675</u>		<u>4,035</u>
		2,175		6,435
<b>Non-current liabilities:</b>				
Loan		750		4,500

<b>Current liabilities:</b>	<b>Sh. "000"</b>	<b>Sh. "000"</b>	<b>Sh. "000"</b>	<b>Sh. "000"</b>
Trade payables	1,620		885	
Bank overdraft	<u>180</u>	<u>1,800</u>	<u>-</u>	<u>885</u>
		<u>4,725</u>		<u>11,820</u>

**Required:**

- Common size percentage income statement for the year ended 31 March 2024. (6 marks)
- Common size percentage statement of financial position as at 31 March 2024. (8 marks)
- Comment on profitability and gearing of the two companies based on the results obtained in b (i) and b (ii) above. (2 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- Highlight **FOUR** tools and techniques used in financial statements analysis. (4 marks)
- Explain **THREE** red flags and warning signs that credit analysts should be concerned with when conducting analysis of financial statements for lending purposes. (6 marks)
- Umeme Ltd. is a manufacturing company specializing in the manufacture of high quality furniture. The company is at risk of being insolvent following several years of underperformance because of Covid 19 in terms of profitability. It is expected that the company will be declared insolvent. The following information is available from its books, for the recently closed period.

	<b>Sh. "Million"</b>
Current assets	78
Current liabilities	52
Non-current assets	130
Net income	13
Dividends	2.6
Sales	78
Cost of goods sold	53
Total liabilities	156
Price earning ratio	8.0x

Using the standard Z-Score Model  $Z = (1.2 \times A) + (1.4 \times B) + (3.3 \times C) + (0.6 \times D) + (1.0 \times E)$ .

Where:  $A = \frac{\text{Working capital}}{\text{Total assets}}$

$B = \frac{\text{Retained earnings}}{\text{Total assets}}$

$C = \frac{\text{Earnings before interest and tax}}{\text{Total assets}}$

$D = \frac{\text{Market value of equity}}{\text{Total liabilities}}$

$E = \frac{\text{Sales}}{\text{Total assets}}$

**Required:**

- Calculate the Z-Score of the company. (8 marks)
- Comment about the results obtained in C (i) above. (2 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- Highlight **FOUR** objectives of audits of financial statements with a view of financial statements analysis. (4 marks)
- With regards to credit risk assessment, explain the difference between credit rating and credit scoring processes. (4 marks)

- (c) The following set of balances were obtained from incomplete records of Debonet Limited for the years ended 30 April 2023 and 2024.

	2024 Sh.	2023 Sh.
Inventory	1,883,400	2,262,750
Trade receivables	?	2,941,500
Trade payables	?	2,600,000

**Additional information:**

- Credit sales and credit purchases for the year to 30 April 2024 were Sh.8,030,000 and Sh.4,800,000 respectively.
- Sales returns amounted to Sh.381,500 while purchases returns were Sh.216,000 for the year ended 30 April 2024.
- Cash received from credit customers was Sh.7,840,000 and cash paid to suppliers was Sh.4,684,000 for the year ended 30 April 2024.

**Required:**

Analyse the working capital management of Dabonet Limited by calculating the following:

- Inventory turnover ratio. (2 marks)
  - Receivables turnover ratio. (2 marks)
  - Payables turnover ratio. (2 marks)
- (d) The following trial balance as at 30 June 2024 relates to Automart Limited and was extracted with a view of credit analysis of the company:

	Sh. "000"	Sh. "000"
Revenue		1,046,000
Inventory at 1 July 2023	53,700	
Purchases	765,300	
Carriage inwards	19,100	
Returns	20,200	16,400
Wages and salaries	87,750	
Office rent	52,800	
Electricity and water	32,700	
Telephone and postage	18,850	
Stationery and packaging	7,400	
Property at cost (building: Sh.168 million)	362,500	
Plant and equipment at cost	134,200	
Motor vehicles at cost	64,000	
Furniture and fitting at cost	26,000	
<b>Accumulated depreciation (1 July 2023):</b>		
• Building		16,800
• Plant and equipment		37,600
• Motor vehicles		24,000
• Furniture and fittings		13,000
Trade receivables	115,600	
Cash and cash equivalent	36,150	
Trade payables		68,200
Ordinary shares capital (Sh.10 par value)		300,000
Share premium		100,000
Retained earnings at 1 July 2023		118,000
12.5% bonds		60,000
Interest paid	3,750	
	<u>1,800,000</u>	<u>1,800,000</u>

**Additional information:**

- Inventory count at 30 June 2024 revealed the value of inventory at a cost of Sh.67,750,000.
- As at 30 June 2024, electricity and water bills owing amounted to Sh.4,260,000.

3. Depreciation on property, plant and equipment is provided as follows:
- | Assets                 | Rate per annum | Basis            |
|------------------------|----------------|------------------|
| Building               | 2.5%           | Straight line    |
| Plant and equipment    | 15%            | Reducing balance |
| Motor Vehicles         | 25%            | Straight line    |
| Furniture and fittings | 12.5%          | straight line    |
4. The 12.5% bonds were issued on 1 October 2023. Interest is payable semi-annually on 31 March and 30 September each year.
5. A provision for current tax for the year ended 30 June 2024 of Sh.7,275,000 needs to be made.
6. Retained earnings for the year amounted to Sh.17,250,000.

**Required:**

Prepare a statement of financial position as at 30 June 2024.

(6 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) Explain the following terms as used in the analysis of statement of financial position:
- (i) Inventory risk. (2 marks)
- (ii) Solvency risk. (2 marks)
- (b) When making investment decisions, cash flows are considered to be more important than accounting profit. Discuss why this is the case. (4 marks)
- (c) The following information was extracted from the financial statements of Haraka Ltd. and its subsidiary Pole Ltd. for the year ended 30 April 2024 and 2023.

**Income statement for the year ended 30 April 2024:**

	Sh. "000"
Revenue	90,000
Cost of sales	(44,000)
Gross profit	46,000
Operating expenses	(14,000)
Finance cost	(650)
Profit before tax	31,350
Income tax expenses	(13,500)
	<u>17,850</u>
<b>Attributable to:</b>	
Equity holders of the parent	14,870
Non-controlling interest	<u>2,980</u>
	<u>17,850</u>

**Group statement of financial position as at 30 April:**

	2024 Sh. "000"	2023 Sh. "000"
<b>Non-current assets:</b>		
Property, plant and equipment	<u>77,160</u>	<u>71,360</u>
<b>Current assets:</b>		
Inventory	16,530	13,020
Trade receivables	18,040	18,530
Cash and cash equivalent	<u>5,200</u>	<u>3,000</u>
	<u>39,770</u>	<u>34,550</u>
Total assets	<u>116,930</u>	<u>105,910</u>
<b>Equity and liabilities:</b>		
<b>Capital and reserves</b>		
Ordinary shares capital	15,000	15,000
Retained profit	59,370	47,500
Non-controlling interest	<u>8,540</u>	<u>6,390</u>
	<u>82,910</u>	<u>68,890</u>

	Sh. "000"	Sh. "000"
<b>Non-current assets:</b>		
Deferred tax	9,860	12,360
Loan	<u>5,250</u>	<u>7,860</u>
	<u>15,110</u>	<u>20,220</u>
<b>Current liabilities:</b>		
Payables and accruals	10,410	9,950
Current tax	<u>8,500</u>	<u>6,850</u>
	<u>18,910</u>	<u>16,800</u>
Total equity and liabilities	<u>116,930</u>	<u>105,910</u>

**Additional information:**

- During the year, dividend was paid to all the shareholders including the non-controlling interest.
- Cost of sales includes depreciation charged on property, plant and equipment amounting to Sh.2,030,000 and Sh.100,000 being loss on disposal of item of plant whose book value at disposal was Sh.200,000.

**Required:**

Statement of cash flow for the year ended 30 April 2024 in conformity with the requirements of International Accounting Standard (IAS) 7, "statement of cash flows".

(12 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) The following information was extracted from the books of Kilimanjaro Ltd.

Item	2024 Sh. "000"	2023 Sh. "000"
Revenue	10,800	-
Cost of goods sold	3,600	-
Inventory	1,200	2,400
Accounts receivable	120	10.8
Accounts payable	960	108

Assume 1 year = 365 days

**Required:**

Calculate the cash conversion cycle.

(8 marks)

- (b) Moto Moto Ltd. is an expanding company and the following accounts relates to its operations for the year 2023 and 2024.

**Moto Moto Ltd.**

**Income statement for the year ended 30 June:**

	2023 Sh. "000"	2024 Sh. "000"
Sales	4,200.00	6,720.00
Cost of sales	<u>(2,310.00)</u>	<u>(3,780)</u>
Gross profit	1,890.00	2,940.00
<b>Expenses:</b>		
Debenture interest	52.50	52.00
Trading expenses	<u>945.00</u>	<u>1,155.00</u>
Net profit before tax	892.50	1,732.50
Corporation tax	<u>(336.00)</u>	<u>(672.00)</u>
	556.50	1,060.50
Ordinary share dividend	<u>(262.50)</u>	<u>(367.50)</u>
Undistributed profit	<u>294.00</u>	<u>693.00</u>

**Moto Moto Ltd.****Statement of financial position as at 30 June:**

	2023		2024	
	Sh.“000”	Sh.“000”	Sh.“000”	Sh.“000”
Non-current assets	2,100		2,940	
<b>Less: depreciation</b>	<u>(420)</u>	1,680	<u>(525)</u>	2,415
<b>Current assets:</b>				
Inventory	840.00		1,155.00	
Trade receivables	525.00		725.00	
Bank	<u>168.00</u>	<u>1,533.00</u>	<u>-</u>	<u>1,890.00</u>
		<u>3,213.00</u>		<u>4,305.00</u>
<b>Capital and liabilities:</b>				
Capital				
Ordinary share capital		1,050.00		1,050.00
Retained profit		<u>735.00</u>		<u>1,428.00</u>
		1,785.00		2,478.00
<b>Non-current liabilities:</b>				
12% Debentures		525.00		231.00
<b>Current liabilities:</b>				
Trade payables	304.50		420.00	
Corporation tax	336.00		672.00	
Dividends	262.50		367.50	
Bank overdraft	<u>-</u>	<u>903.00</u>	<u>136.50</u>	<u>1,596.00</u>
		<u>3,213.00</u>		<u>4,305.00</u>

**Required:**

Compute **SIX** accounting ratios for both 2023 and 2024 which would be of value in assessing the profitability and liquidity of Moto Moto Ltd. (12 marks)

**(Total: 20 marks)**

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## CCP INTERMEDIATE LEVEL

### FINANCIAL STATEMENTS ANALYSIS FOR CREDIT MANAGERS

**TUESDAY: 23 April 2024. Morning Paper.**

**Time Allowed: 3 hours.**

**Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.**

#### QUESTION ONE

- (a) Define the term “financial distress”. (2 marks)
- (b) Financial institutions in most countries attempt to mitigate the risk of lending to borrowers by performing a credit analysis on individuals and businesses applying for new credit account or loan. This process is based on a review of five key elements that predict the probability of a borrower defaulting on his debt, called the five Cs of credit.

Explain **THREE** of these five Cs referred above. (6 marks)

- (c) To reduce the debt-equity ratio in a firm in order to raise additional debt, debentures can be converted to ordinary shares or preference shares. PQZ Ltd. directors approved the conversion of debentures to ordinary shares on 30 September 2022 when the capital structure was as follows:

	Sh. “000”
10,000 Sh.20 ordinary share capital	200,000
10,000 Sh.20 8% preference share capital	100,000
5,000 Sh.100 12% debentures	500,000

The above debentures are due for conversion.

#### Required:

- (i) The conversion price. (2 marks)
- (ii) The conversion ratio. (2 marks)
- (iii) New capital structure. (2 marks)
- (d) The results of Mehboob Ltd. for the year ended 30 June 2022 are as follows:

	Sh. “000”
Non-current assets	85,000
Current assets	<u>60,000</u>
	<u>145,000</u>
Share capital and reserves	80,000
Long term debt	40,000
Current liabilities	<u>25,000</u>
	<u>145,000</u>
Sales revenue	50,000
Profit before interest and tax	14,000
Interest	<u>(8,000)</u>
Profit before tax	6,000
Tax	<u>(2,000)</u>
Profit for the period	<u>4,000</u>
Dividends paid	<u>1,500</u>

**Additional information:**

The following five ratios are used to produce a Z-score, where  $Z\text{-score} = 1.2A + 1.4B + 3.3C + 0.6D + 1.0E$ . Where;

$$A = \frac{\text{Working capital}}{\text{Total assets}}$$

$$C = \frac{\text{Earnings before interest and tax}}{\text{Total assets}}$$

$$B = \frac{\text{Retained earnings}}{\text{Total assets}}$$

$$D = \frac{\text{Market value of equity shares}}{\text{Book value of total debt}}$$

$$E = \frac{\text{Sales}}{\text{Total assets}}$$

In Altman's model, a Z-score of 2.7 or more indicate non-failure and a Z-score of 1.8 or less indicate a high risk of financial failure. Assume that all current liabilities are treated as debt and the market value for the Altman's Ltd. shares of Sh.90 million.

**Required:**

Altman's Z-score for the firm.

(6 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) Corner Enterprises pays its trade and other payables on the 10<sup>th</sup> day after purchase. The average collection period is 35 days while the average age of inventory is 45 days. The firm's current annual sales amount to Sh.36 million. The firm is considering stretching its trade and other payables payment period by 25 days. The firm cost of capital is 10%.

**Required:**

- (i) The incremental profit or loss that would arise from the above strategy. (4 marks)
- (ii) Advise the management of Corner Enterprises on whether to accept the new strategy or not. (2 marks)
- (b) The following information relates to Wangeni Ltd. for the year ended 31 December 2022:
- 1 million outstanding ordinary shares.
  - 80,000 outstanding convertible preference shares.
  - During the year 2023, the net income was Sh.7 million.
  - The company has no other potentially dilutive securities.
  - The company pays a preference dividend of Sh.10 per share.
  - Each preference share is convertible into five ordinary shares of the company.

**Required:**

- (i) Diluted earnings per share (EPS). (4 marks)
- (ii) Distinguish between "dilutive securities" and "antidilutive securities". (2 marks)
- (c) The following information relates to three separate and independent companies, Chan Ltd., Ling Ltd. and Wong Ltd. as at 31 March 2023:

Summarised financial position as at 31 March 2023:

	Chan Ltd. Sh."000"	Ling Ltd. Sh."000"	Wong Ltd. Sh."000"
Total assets	600	600	700
Creditors	-	-	(100)
	<u>600</u>	<u>600</u>	<u>600</u>
<b>Capital and revenues:</b>			
Share capital (called up) of Sh.1 each	500	300	200
10% cumulative preference shares of Sh.1 each	-	200	300
Profit and loss account	<u>100</u>	<u>100</u>	<u>100</u>
	<u>600</u>	<u>600</u>	<u>600</u>

**Additional information:**

- The operating profit before interest and tax for the year ended 31 March 2023 earned by each of the three companies was Sh.300,000.
- The corporation tax rate for all the three companies for the year ended 31 March 2024 was 30%. This rate is to be used in calculating each company's tax payable on ordinary profit.
- An ordinary dividend of Sh.0.20 for the year ended 31 March 2024 was paid by all the three companies as were the preference dividends.
- The market prices for ordinary shares at 31 March 2024 was as follows:

	Sh.
Chang Ltd.	8.40
Ling Ltd.	9.50
Wong Ltd.	<u>10.38</u>
	<u>28.28</u>

- There were zero changes in the share capital structures and in long term loans of any of the companies during the year to 31 March 2024.

**Required:**

- Income statement in columnar format for each of the three companies for the year ended 31 March 2024. (4 marks)
- Price earnings ratio. (2 marks)
- Gearing ratio. (2 marks)

**(Total: 20 marks)****QUESTION THREE**

- (a) Digi Limited, a public entity is in the process of finalising its financial statements for the year ended 31 October 2023. On 1 November 2022 the company had a deferred tax asset balance of Sh.54 million. During the year ended 31 October 2023, the following information was made available:

- Property, plant and equipment had a carrying value of Sh.980 million and a tax base of Sh.860 million.
- Inventory had cost Sh.390 million and the net realisable value was Sh.350 million.
- Trade receivables were carried at Sh.320 million. This was after a general provision for doubtful debts of Sh.40 million and an exchange gain (Unrealised) of Sh.60 million, which are not allowed for tax.
- The company acquired some intangible assets at a cost of Sh.160 million on 1 May 2023. The estimated economic useful life of these intangible assets were eight (8) years as at 1 May 2023. The full cost of intangible assets was allowed for tax purposes on cash paid basis.
- Trade and other payables which amounted to Sh.280 million included an accrual of Sh. 30 million which was allowable for tax purposes on cash basis.
- The income tax rate applicable to Digi Limited for the year ended 31 October 2023 was 30%.

**Required:**

- Compute the relevant temporary differences as at 31 October 2023. (6 marks)
- Deferred tax account as at 31 October 2023. (2 marks)

- (b) The following results have been obtained from the financial statements of Plateaux Ltd. as at 30 June 2023. Plateaux Ltd. financial year end is 30 June:

Year	2023	2022	2021	2020	2019
Revenue (Sh."000")	4,360.70	4,250.60	4,165.00	4,123.80	3,885.00
Profit after tax (Sh."000")	53.80	48.00	45.70	45.90	42.80
Earnings per share (EPS)(Sh.)	8.40	7.60	7.30	7.50	7.00
Equity funds per share (EFPS) (Sh.)	255.50	251.40	249.10	246.80	243.00

The consumer price level index at the end of each year end is as follows:

2019	245.90
2020	253.30
2021	268.50
2022	273.90
2023	282.00

**Required:**

Compute the adjustment factors for year 2019 to 2022 using 2023 as the end-of-year price levels. (4 marks)

- (c) The following information is available to a loan analyst at Bidii Ltd., a microfinance institution:

<b>Asset:</b>	<b>ABC Ltd. (Sh.)</b>	<b>XYZ Ltd. (Sh.)</b>
Cash	120,000	320,000
Receivables	220,000	302,000
Inventories	<u>570,000</u>	<u>518,000</u>
Total current assets	910,000	1,140,000
Other assets	<u>500,000</u>	<u>612,000</u>
Total assets	<u>1,410,000</u>	<u>1,752,000</u>
<b>Liabilities and shareholders equity:</b>		
Current liabilities	305,000	350,000
Long term liabilities	400,000	500,000
Ordinary shares and retained earnings	<u>705,000</u>	<u>902,000</u>
Total liabilities and shareholder equity	<u>1,410,000</u>	<u>1,752,000</u>
Annual sales	930,000	1,500,000
Rate of gross profit on sales	30%	40%

Each of these companies has requested a loan of Sh.50,000 for six months with no collateral offered. As the microfinance institution has reached its quota for loans of this types, only one of these requests is to be granted.

**Required:**

Recommend the company which is to be judged as having the better risk.

(8 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) Explain **THREE** strategies for short-term investments within an organisation. (6 marks)

- (b) The following is a summarised statement of financial position of Tama Tamu Ltd. as at 30 June:

	<b>2022</b>	<b>2023</b>
	<b>Sh. "000"</b>	<b>Sh. "000"</b>
Non-current assets	9,000	11,700
<b>Less:</b> Accumulated depreciation	<u>(3,600)</u>	<u>(5,400)</u>
	5,400	6,300
Investments (cost)	3,600	900
<b>Current assets:</b>		
Inventories	7,200	12,600
Trade receivables	24,300	27,900
Bank	<u>1,800</u>	<u>-</u>
	<u>42,300</u>	<u>47,700</u>
<b>Capital and liabilities:</b>		
Called up share capital		
Ordinary shares of Sh.100 each	9,000	13,500
Share premium	2,700	3,600
Retained profit	<u>12,060</u>	<u>9,540</u>
	23,760	26,640
<b>Current liabilities:</b>		
Trade payables	11,700	14,220
Bank overdraft	-	1,080
Taxation	4,140	3,420
Proposed dividend	<u>2,700</u>	<u>2,340</u>
	<u>42,300</u>	<u>47,700</u>

**Additional information:**

- During the year ended 30 June 2023, a non-current asset which had cost Sh.450,000 was sold for Sh.360,000 in cash. Accumulated depreciation on this non-current asset at 30 June 2022 amounted to Sh.180,000. Also some investments with an original cost of Sh.2,700,000 was sold at a book value.
- Taxation balance disclosed in the above statement of financial position represents the actual amount agreed with the revenue authority. All taxes are paid on their due dates. Ignore advance tax.
- No interim dividend was paid during the year ended 30 June 2023.
- During the year ended 30 June 2023, the company made 1 for 2 right issue of 250 Sh.100 share at Sh.120 per share.

**Required:**

Statement of cash flows for the year ended 30 June 2023 in accordance with the requirements of International Accounting Standard (IAS) 7 “cash flow statement”. (14 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

(a) Discuss the following sources of non-financial information for credit analysis:

(i) Articles of association. (2 marks)

(ii) Auditor’s report. (2 marks)

(iii) Management Discussions and Analysis (Commentary). (2 marks)

(b) Describe **THREE** users of credit analyst’s report and their information needs. (6 marks)

(c) The following trial balance was extracted from the financial records of Thunder Ltd., a public limited company as at 31 March 2024:

	Sh. “000”	Sh. “000”
Authorised, issued and paid up Capital (ordinary shares of Sh.100 each)		40,000
Share premium		1,712
Retained earnings (1 April 2023)		11,776
Motor vehicle at cost	7,680	
Freehold, premises at cost	32,000	
Accumulated depreciation		3,072
Purchases	146,080	
Sales		189,440
Inventory on (1 April 2023)	17,200	
Goodwill	4,800	
Allowance for bad debts		224
Bad debts	752	
Bank loan at 12% per annum		8,000
Loan interest		960
Trade receivables	22,272	
Trade payables		14,896
Rent receivable		400
Motor vehicle expenses	1,232	
General expenses	7,040	
Bank	3,216	
Wages and salaries	27,472	
Rates and insurance	736	
	<u>270,480</u>	<u>270,480</u>

**Additional information:**

- Inventory in trade on 31 March 2024 was Sh.18,480,000.
- Allowance for bad debts are to be increased to Sh.480,000.
- Wages and salaries outstanding on 31 March 2024 were Sh.320,000.
- Rates and insurance paid in advance on 31 March 2024 were Sh.99,000.
- Depreciation is provided on motor vehicle at the rate of 25% per annum on cost.
- The income tax for the year to 31 March 2024 is estimated at Sh.2,500,000.

**Required:**

Statement of profit or loss for the year ended 31 March 2024.

(8 marks)

**(Total: 20 marks)**

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## CCP INTERMEDIATE LEVEL

### FINANCIAL STATEMENTS ANALYSIS FOR CREDIT MANAGERS

**TUESDAY: 22 August 2023. Morning Paper.**

**Time Allowed: 3 hours.**

**Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.**

#### QUESTION ONE

- (a) Credit managers are expected to apply cash flow management strategies when undertaking credit planning and forecasting.

In relation to the above statement, explain **TWO** cash flow management strategies. (4 marks)

- (b) In the context of credit risk analysis for credit finance, explain the following risks:

- (i) Default risk. (2 marks)
- (ii) Concentration risk. (2 marks)
- (iii) Downgrade risk. (2 marks)

- (c) Explain how benchmarking in finance is used in financial statements analysis. (4 marks)

- (d) List **SIX** importances of working capital management. (6 marks)

**(Total: 20 marks)**

#### QUESTION TWO

- (a) Explain the term “financial statements analysis”. (2 marks)

- (b) Highlight **SIX** advantages of financial statements analysis. (6 marks)

- (c) Identify **TWO** reasons for readjustment of income statement for lending purposes. (2 marks)

- (d) The following draft financial statements for the year ended 30 June 2023 were extracted from the financial records of Ridge Limited with a view of cash flow statement analysis:

<b>Income Statement</b>	
<b>For the year ended 30 June 2022:</b>	
	<b>Sh. “000”</b>
Sales revenue	86,640
Cost of goods sold	<u>(54,180)</u>
Gross profit	32,460
Distribution costs	10,750
Administrative expenses	<u>(9,230)</u>
Profit from operations	12,480
Finance costs	<u>(4,500)</u>
Investment income	<u>2,360</u>
Profit before tax	10,340
Income tax expense	<u>(2,910)</u>
Profit for the year	<u>7,430</u>

**Statement of financial position as at 30 June 2023:**

	<b>2022</b>	<b>2021</b>
<b>Assets:</b>	<b>Sh.“000”</b>	<b>Sh.“000”</b>
<b>Non-current assets:</b>		
Property, plant and equipment	37,850	34,320
Debt investments	<u>6,000</u>	<u>4,800</u>
	43,850	39,120
<b>Current assets:</b>		
Inventories	14,900	13,200
Trade receivable	11,500	12,700
Cash and bank	<u>4,750</u>	<u>3,480</u>
Total assets	<u>75,000</u>	<u>68,500</u>
<b>Equity and liabilities:</b>		
<b>Equity:</b>		
Ordinary share capital (Sh.10 par value)	12,000	10,500
Share premium	4,000	3,500
Retained profit	<u>6,100</u>	<u>3,320</u>
Total equity	22,100	17,320
<b>Non-current liabilities:</b>		
Bank loans	36,000	32,000
<b>Current liabilities:</b>		
Trade payables	14,300	16,800
Current tax payable	<u>2,600</u>	<u>2,380</u>
Total equity and liabilities	<u>75,000</u>	<u>68,500</u>

**Additional information:**

- During the year ended 30 June 2023 an item of plant was disposed of for cash proceeds of Sh.2,600,000. The plant had cost Sh.5,500,000 and had an accumulated depreciation of Sh.3,180,000. Any gain/loss on disposal of plant has been included within cost of goods sold.
- Depreciation charged on property, plant and equipment amounted to Sh.5,680,000 during the year to 30 June 2023.
- In the year ended 30 June 2023 the company issued new bank loans amounting to Sh.6,000,000.
- Investment income appearing on the income statement comprises of interest received from interest-bearing debt investment.

**Required:**

Statement of cash flows for Ridge Limited for the year ended 30 June 2023.

(10 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- (a) The conceptual framework under planning regulations of published financial statements states that “information contained in the statements should have certain specified quantitative characteristics”.

Outline **TWO** quantitative characteristics of information from published financial statements.

(4 marks)

- (b) Describe the term “CAMEL rating system”.

(4 marks)

- (c) Explain how trend analysis is used to evaluate the financial health of an organisation.

(2 marks)

- (d) The following final accounts were obtained from the books of Cosmos Ltd. for the year ended 30 June 2023 and 30 June 2022.

<b>Cosmos Limited.</b>		
<b>Income Statement for the years ended:</b>		
	<b>30 June 2023</b>	<b>30 June 2022</b>
	<b>Sh. "000"</b>	<b>Sh. "000"</b>
Net sales	42,142.8	37,188
Less: Cost of sales	<u>(15,231.6)</u>	<u>(13,305.6)</u>
Gross profit	26,911.2	23,882.4
Selling and administrative expenses	<u>(15,789.6)</u>	<u>(13,629.6)</u>
Other operating expenses	<u>(982.8)</u>	<u>(375.6)</u>
Operating income	10,138.8	9,877.2
Finance cost	<u>(879.6)</u>	<u>(426)</u>
	9,259.2	9,451.2
Other incomes	<u>7,772.4</u>	<u>1,185.6</u>
Income before taxes	17,031.6	10,636.8
Income tax expenses	<u>(2,860.8)</u>	<u>(2,448)</u>
Net income	<u>14,170.8</u>	<u>8,188.8</u>

<b>Cosmos Ltd.</b>		
<b>Statement of financial position as at:</b>		
	<b>30 June 2023</b>	<b>30 June 2022</b>
	<b>Sh. "000"</b>	<b>Sh. "000"</b>
<b>Assets:</b>		
<b>Current assets:</b>		
Cash and cash equivalent	13,438.8	10,981.2
Inventories	5,481.6	4,584.0
Accounts receivable	3,180.0	2,824.8
Other Current Assets	3,794.4	2,671.2
<b>Non-current assets:</b>		
Property, Plants and Equipment	17,672.4	11,473.2
Investments	11,647.2	10,477.2
Intangible Assets	<u>32,290.8</u>	<u>15,393.6</u>
Total Assets	<u>87,505.2</u>	<u>58,405.2</u>
<b>Shareholders equity and liabilities:</b>		
<b>Current liabilities:</b>		
Accounts payable	10,630.8	7,988.4
Bank	9,720.0	8,098.8
Other liabilities	1,858.8	378.0
<b>Non-current liabilities:</b>		
Debentures	16,849.2	6,070.8
Other liabilities and Taxes	10,866.0	5,454.0
<b>Shareholders equity:</b>		
Ordinary Share Capital	13,124.4	11,300.4
Treasury Stocks	59,510.4	50,500.8
Accumulated other Income	(33,314.4)	(30,477.6)
Loss	<u>(1740.0)</u>	<u>(908.4)</u>
	<u>87,505.2</u>	<u>58,405.2</u>

**Required:**

- (i) Statement of profit or loss trend analysis. (4 marks)
- (ii) Statement of financial position trend analysis. (6 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) Highlight **TWO** types of financial risks in a business. (2 marks)
- (b) State **FOUR** warnings signs of an insolvent company. (4 marks)
- (c) Examine **THREE** cash flow drivers in a business. (6 marks)
- (d) The following is the statement of profit or loss of Xylem Ltd. for the years ended 30 June 2022 and 30 June 2023.

	2023 Sh. "000"	2022 Sh. "000"
Revenue	70,544	61,258
Cost of sales	<u>(35,978)</u>	<u>(33,700)</u>
Gross profit	34,566	27,558
Distribution cost	<u>(5,527)</u>	<u>(4,915)</u>
Administrative cost	<u>(14,851)</u>	<u>(11,139)</u>
Total operating profit	<u>14,188</u>	<u>11,504</u>
Profit/(loss) on sale of non-current assets	709	(620)
Profit before interest and taxation (PBIT)	14,897	10,884
Net interest payable	<u>(2,754)</u>	<u>(3,219)</u>
Profit before taxation	12,143	7,665
Taxation	<u>(3,122)</u>	<u>(2,235)</u>
Profit for the period	<u>9,021</u>	<u>5,430</u>

**Required:**

Prepare a common size statement of income for the years 30 June 2023 and 30 June 2022.

(8 marks)

**(Total: 20 marks)****QUESTION FIVE**

- (a) For financial reports to be useful and reliable to both internal and external shareholders, they must be accurate in preparation and presentation.

**Required:**

In view of the above statement, explain **TWO** impacts of inaccurate financial reporting.

(4 marks)

- (b) The following are the summarised financial statements of Masomo Limited:

**Income statements for year ended 31 March:**

	2022 Sh. "000"	2023 Sh. "000"
Revenue	187,000	222,700
Cost of sales	<u>(110,240)</u>	<u>(145,940)</u>
Gross profit	76,760	76,760
Distribution expenses	<u>(20,000)</u>	<u>(16,000)</u>
Administrative expenses	<u>(32,460)</u>	<u>(31,920)</u>
Net profit before interest and tax	<u>24,300</u>	<u>28,840</u>
Loan interest	<u>(900)</u>	<u>(750)</u>
Profit before tax	23,400	28,090
Tax expenses	<u>(7,020)</u>	<u>(10,827)</u>
Net profit after tax	16,380	17,263
Dividends proposed	<u>(12,000)</u>	<u>(12,000)</u>
Retained profit for the year	<u>4,380</u>	<u>5,263</u>

- 80% of the sales are on credit.
- The inventory as at 31 March 2021 was valued at Sh. 26 million.

**Statement of financial position as at 31 March:**

	<b>2022</b>	<b>2023</b>
	<b>Sh. "000"</b>	<b>Sh. "000"</b>
<b>Non-current assets:</b>		
Property, plant and equipment	46,100	54,600
<b>Current assets:</b>		
Inventory	25,000	23,600
Trade receivable	19,700	17,800
Bank and cash balance	<u>11,900</u>	<u>11,729</u>
	<u>56,600</u>	<u>53,129</u>
Total assets	<u>102,700</u>	<u>107,729</u>
<b>Equity capital and liabilities:</b>		
Ordinary share capital	60,000	60,000
Reserves	<u>6,980</u>	<u>10,242</u>
	66,980	70,242
<b>Non-current liabilities:</b>		
15% Bank loan	6,000	5,000
<b>Current liabilities:</b>		
Trade payable	16,700	15,660
Taxation	7,020	10,827
Proposed dividends	<u>6,000</u>	<u>6,000</u>
	<u>29,720</u>	<u>32,487</u>
Total capital and liabilities	<u>102,700</u>	<u>107,729</u>

**Required:**

For years 2022 and 2023, calculate:

- (i) Return on capital employed (ROCE). (2 marks)
- (ii) Current ratio. (2 marks)
- (iii) Quick ratio. (2 marks)
- (iv) Gearing ratio. (2 marks)
- (v) Non-current assets turnover. (2 marks)
- (vi) Working capital turnover. (2 marks)
- (vii) In reference to the above ratios (i) to (vi), comment on profitability, liquidity, gearing and working capital of Masomo Ltd. (4 marks)

**(Total: 20 marks)**

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## CCP INTERMEDIATE LEVEL

### FINANCIAL STATEMENTS ANALYSIS FOR CREDIT MANAGERS

**TUESDAY: 25 April 2023. Morning Paper.**

**Time Allowed: 3 hours.**

**Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.**

#### QUESTION ONE

- (a) Summarise **SIX** steps followed in analysing the financial statements of an entity. (6 marks)
- (b) Highlight **FOUR** red flags that credit analysts should focus on when conducting the analysis of financial statements for lending purposes. (8 marks)
- (c) Explain **THREE** challenges faced in the analysis of the financial statements. (6 marks)
- (Total: 20 marks)**

#### QUESTION TWO

- (a) Explain the meaning of the following terms as used in credit analysis:
- (i) Credit risk analysis. (2 marks)
- (ii) Structural credit analysis model. (2 marks)
- (iii) Reduced-form credit analysis model. (2 marks)
- (b) Describe **FOUR** components of a credit analyst's report. (4 marks)
- (c) Explain **FOUR** reasons that would motivate a credit manager to issue low quality credit report. (4 marks)
- (d) The following financial information relates to PM Limited for the year ended 31 December 2022:

	Sh. "000"
Purchase of raw materials	13,400
Usage of raw materials	13,000
Sale of finished goods (all on credit)	50,000
Cost of sales (finished goods)	36,000
Average creditors	2,800
Average raw materials inventory	2,400
Average work-in-progress	2,000
Average finished goods inventory	4,200
Average debtors	9,400

Assume a financial year of 365 days.

#### Required:

Calculate the length of the cash operating cycle.

(6 marks)  
**(Total: 20 marks)**

**QUESTION THREE**

- (a) The following is an extract of Blue Bell Ltd. financial statements for the last two years as at 31 March:

	2022		2023	
	Asset	Liabilities	Asset	Liabilities
	Sh. "000"	Sh. "000"	Sh. "000"	Sh. "000"
Inventory	10,000		20,000	
Debtors	30,000		30,000	
Payment in advance	2,000		-	
Cash in hand	20,000		15,000	
Sundry creditors	-	25,000	-	30,000
Acceptance	-	15,000	-	12,000
Bank overdraft	-	-	-	5,000
	<u>62,000</u>	<u>40,000</u>	<u>65,000</u>	<u>47,000</u>

Sales amounted to Sh.350,000,000 in year 2022 and Sh.300,000,000 in year 2023.

**Required:**

For each of the years ended 31 March 2022 and 2023, calculate the following ratios:

- (i) Short term solvency. (2 marks)
- (ii) Quick ratio. (2 marks)
- (iii) Inventory current asset ratio. (2 marks)
- (iv) Long term solvency ratio. (2 marks)
- (v) Proprietary ratio. (2 marks)

- (b) The following statements were obtained from the financial records of Summer Limited for the years ended 31 March 2022 and 31 March 2023:

Statement of profit or loss for the year ended 31 March:

	2023	2022
	Sh."000"	Sh."000"
Revenue	5,750	5,250
Cost of sales	(3,000)	(2,575)
Gross profit	2,750	2,675
Other income	<u>200</u>	<u>125</u>
	2,950	2,800
Distribution cost	(300)	(250)
Administrative expenses	(1,075)	(1,000)
Finance cost	<u>(200)</u>	<u>(180)</u>
Profit before tax	1,375	1,370
Income tax expenses	<u>(575)</u>	<u>(550)</u>
	800	820
Preference dividends	(70)	(70)
Ordinary dividends	<u>(125)</u>	<u>(125)</u>
Profit for the year	605	625
Retained profit brought forward	<u>2,700</u>	<u>2,075</u>
	<u>3,305</u>	<u>2,700</u>

**Required:**

Horizontal analysis statements of profit or loss for the year ended 31 March 2023.

(10 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) Outline **SIX** limitations of Bankruptcy Prediction Models. (6 marks)
- (b) The following draft cash flow statement for the year ended 30 September 2022, was extracted from the financial records of Cossim Limited:

**Cossim Limited**  
**Statement of Cash flows for the year ended 30 September 2022:**

<b>Cash flows from operating activities:</b>	<b>Sh. “000”</b>
Reported profit before tax	10,340
<b>Adjusted for:</b>	
Add finance costs (interest)	4,500
Less investment income	(2,360)
Add depreciation	5,680
Less gain and disposal [2,600 - (5,500 - 3,180)]	(280)
	17,880
<b>Changes in working capital:</b>	
Less increase in inventories (14,900 - 13,200)	(1,700)
Add decrease in trade receivables (12,700 - 11,500)	1,200
Less decrease in trade payables (16,800 - 14,300)	(2,500)
	14,880
Less interest paid	(4,500)
Less tax paid (2,380 + 2,910 - 2,600)	(2,690)
Net cash provided by operating activities	<u>7,690</u>
<b>Cash flows from investing activities:</b>	
Disposal of plant	2,600
Purchase of Property, Plant and Equipment	(11,530)
Loan advanced (6,000 - 4,800)	(1,200)
Investment income received	(2,360)
Net cash flows used in investing activities	<u>(7,770)</u>
<b>Cash flows from financing activities:</b>	
Issue of new shares at a premium (16,000 - 14,000)	2,000
Dividend paid (3,320 + 7,430 - 6,100)	(4,650)
Issue of new bank loan	6,000
Repayment of bank loan (32,000 + 6,000 - 36,000)	(2,000)
Net cash provided by financing activities	<u>1,350</u>
Net changes in cash and cash equivalents (7,690 - 7,770 + 1,350)	1,270
Add opening cash and cash equivalents	<u>3,480</u>
Closing cash and cash equivalents	<u>4,750</u>

**Additional information:**

- The average current liabilities was Sh.18,040,000.
- The total liabilities both current and non-current amounted to Sh.52,900,000.
- The earnings before interest and taxes amounted to Sh.14,840,000.
- The net income was Sh.7,430,000

**Required:**

- Current liabilities ratio. (2 marks)
  - Cash flow coverage ratio/solvency ratio. (2 marks)
  - Cash interest coverage ratio. (2 marks)
  - Operating cash flow ratio. (2 marks)
  - Cash flow net income. (2 marks)
- (c) Comment on the result of (b) (i-v) above. (4 marks)

**(Total: 20 marks)**

### QUESTION FIVE

- (a) Financial statement analysis is done in different ways using various tools and techniques.

With reference to the above statement, explain **THREE** tools and techniques available for financial statement analysis. (6 marks)

- (b) With regard to credit risk analysis, clearly distinguish between “quantitative credit analysis” and “qualitative credit analysis”. (4 marks)

- (c) The following trial balance was extracted from the books of Mondana Limited as at 31 March 2023:

	Sh. “000”	Sh. “000”
Purchases and sales	48,000	92,700
Freehold land and building at cost	33,000	
Equipment: Cost	6,000	
Accumulated depreciation (1 April 2022)		600
Motor vehicle: Cost	28,800	
Accumulated depreciation (1 April 2022)		7,200
Discount allowed and discount received	1,200	900
Carriage inwards	600	
Salaries and wages	10,200	
Sales and distribution cost	4,200	
Rates and insurance	3,300	
Electricity and water	2,700	
Directors’ fees	6,300	
Inventory (1 April 2022)	15,000	
Trade receivables and trade payables	21,000	12,000
Bank balance	5,100	
Interest on debentures	300	
Ordinary share capital Sh.10 each		30,000
Share premium		15,000
General reserves		7,800
Retained earnings		4,500
10% Debentures		15,000
	<u>185,700</u>	<u>185,700</u>

#### Additional information as at 31 March 2023:

	Sh. “000”
Insurance prepaid	300
Directors fees outstanding	1,200
Audit fees owing	4,500
Corporation tax for the year	1,800
Inventory	16,800

Depreciation is to be provided as follows:

Asset	Rate per annum	Method
Equipment	10%	Straight line
Motor vehicle	25%	Reducing balance

Directors have proposed a dividend of Sh.2 per share after transferring Sh.1.2 million to general reserves.

#### Required:

Statement of profit or loss for the year ended 31 March 2023.

(10 marks)

(Total: 20 marks)

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## CCP INTERMEDIATE LEVEL

### FINANCIAL STATEMENTS ANALYSIS FOR CREDIT MANAGERS

**TUESDAY: 2 August 2022. Morning paper.**

**Time Allowed: 3 hours.**

**Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.**

#### QUESTION ONE

- (a) An organisation must estimate its working capital very accurately because excessive working capital results in unnecessary accumulation of inventory and wastage of capital whereas shortage of working capital affects the smooth flow of operating cycle and a business may fail to meet its financial obligations as they fall due.

As the newly employed credit analyst at Mwamuku Mpya Ltd., explain four factors that could affect the working capital needs of your organisation. (8 marks)

- (b) With reference to evaluation of financial data of a corporate borrower:

Analyse the process of credit analysis of a company. (2 marks)

- (c) Explain the following credit risk assessment drivers:

(i) Probability of default. (2 marks)

(ii) Loss given default. (2 marks)

(iii) Exposure default. (2 marks)

- (d) List four business cash flow drivers. (4 marks)

**(Total: 20 marks)**

#### QUESTION TWO

- (a) The following information relates to two of your corporate customers:

	Wonka Industries Sh. "000"	Acme Industries Sh. "000"
Total debt	50,785	13,186
Total assets	95,789	9,362

The above customers have applied for a loan facility in your bank.

#### Required:

- (i) Compute the total debt-to-assets ratio. (1 mark)
- (ii) As the credit analyst of Jisort Bank, advise on whether you will approve or decline the loan application from your customers based on the information provided above. (4 marks)
- (iii) Explain one reason why debt-to-total assets ratio could change over time. (1 mark)
- (b) Examine three areas of an organisation which can assist a credit analyst to authoritatively conclude that an organisation is facing financial distress and as such no additional loan should be granted. (6 marks)

- (c) An audit report is an appraisal of a business's complete financial status. The report presents the auditors objective assessment of the firm's financial position as a going concern.

With reference to the above statement, discuss four audit reports that would be of interest to a credit analyst when undertaking credit assessment for a publicly listed company. (8 marks)

**(Total: 20 marks)**

### QUESTION THREE

The following trial balance was extracted from the financial records of Mwenza Limited, a public limited entity as at 31 March 2022:

	Sh. "000"	Sh. "000"
Sales		139,600
Purchases	43,200	
Inventory at 1 April 2021	3,650	
Staff salaries	12,900	
Office rent	11,100	
Lighting and heating	4,800	
Telephone and postage	2,400	
Carriage inwards	4,000	
Return inwards	1,600	
Return outwards		2,700
Bad debts written off	800	
Property at cost (land Sh.40 million)	100,000	
Plant and equipment at cost	86,400	
Motor vehicles at cost	36,000	
Accumulated depreciation – 1 April 2021:		
• Building		19,200
• Plant and equipment		24,400
• Motor vehicles		14,400
Accounts receivable	13,370	
Bank balance	2,380	
Accounts payable		4,300
Ordinary share capital (Sh.10 par value)		48,000
Share premium		16,000
Retained earnings at 1 April 2021		36,400
Long term loans		20,000
Interest paid on loans	2,400	
	<u>325,000</u>	<u>325,000</u>

#### Additional information:

- Inventory as at 31 March 2022 was valued at a cost of Sh.3,050,000.
- Depreciation for the year to 31 March 2022 is to be charged as follows:
  - Building 2% on cost
  - Plant and equipment 15% on net book value
  - Motor vehicles 20% on cost
- Accrued rent as at 31 March 2022 amounted to Sh.1,200,000.
- The marketing manager of the company is entitled to a 10% bonus on profit before tax, after charging such bonus.
- The income tax for the year to 31 March 2022 is estimated at Sh.12,500,000.

#### Required:

- Statement of profit or loss for the year ended 31 March 2022. (10 marks)
  - Statement of financial position as at 31 March 2022. (10 marks)
- (Total: 20 marks)**

### QUESTION FOUR

- Explain the role of a financial analyst in an organisation. (2 marks)
- Describe four cash flow measures that are important to a credit analyst in making sound lending decisions. (4 marks)
  - List four items that a credit analyst should pay attention to while assessing a corporate lender. (4 marks)

- (c) (i) Explain the term “credit score”. (2 marks)
- (ii) In the context of a hypothetical credit rating model ranging between 1 – 1,000, differentiate between the following credit scores “800 to 1,000” and “300 to 579”. (4 marks)
- (iii) When information is updated on a borrower’s credit score, their credit score changes. It can rise or fall based on the new information.

With reference to the above statement, describe two ways in which a consumer could improve their credit score. (4 marks)

**(Total: 20 marks)**

#### **QUESTION FIVE**

- (a) Explain the accounting cycle in a business entity. (6 marks)
- (b) Explain five types of non-financial information that a credit analyst would be interested in the Articles of Association (AOA) of a company. (10 marks)
- (c) Describe four roles of a credit committee in an organisation. (4 marks)

**(Total: 20 marks)**

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## CCP INTERMEDIATE LEVEL

### FINANCIAL STATEMENTS ANALYSIS FOR CREDIT MANAGERS

**MONDAY: 4 April 2022. Morning paper.**

**Time Allowed: 3 hours.**

**Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.**

#### QUESTION ONE

- (a) Outline four purposes of a statement of cash flow. (4 marks)
- (b) Imarisha Ltd. is listed at the securities exchange. The following statement were extracted from the books of the company for the year ended 31 December 2021:

##### Income Statement for the year ended 31 December 2021:

	Sh. "000"	Sh. "000"
Sales		3,450
Less: Cost of goods sold		(2,350)
Gross profit		1,100
Add: Gain from sale of investment		40
		<u>1,140</u>
Less: Selling and administrative expenses		(465)
Profit before tax		675
Less: Corporation tax		(270)
Profit after tax		<u>405</u>

##### Statement of financial position as at 31 December:

	2021		2020	
	Sh. "000"	Sh. "000"	Sh. "000"	Sh. "000"
<b>Non-Current assets:</b>				
Property, plant and equipment		950		850
Accumulated depreciation		(600)		(585)
		<u>350</u>		<u>265</u>
<b>Current assets</b>				
Inventories	800		950	
Accounts receivable	875		650	
Investments	650		710	
Cash in hand	<u>900</u>	<u>3,225</u>	<u>575</u>	<u>2,885</u>
Total assets		<u>3,575</u>		<u>3,150</u>
<b>Capital and liabilities:</b>				
Capital stock		950		850
Retained earnings		<u>1,225</u>		<u>950</u>
		2,175		1,800
<b>Current liabilities:</b>				
Account payables	600		450	
Accrued liabilities	100		125	
Bonds payables	<u>700</u>	<u>1,400</u>	<u>775</u>	<u>1,350</u>
		<u>3,575</u>		<u>3,150</u>

**Additional Information:**

1. During the year 2021, a dividend of Sh.130,000 was declared and paid by the management of Imarisha Ltd.
2. Some plant assets were purchased during the year 2021 and the payment was settled by issuing common stock amounting to Sh.35,000.

**Required:**

Cash flow statement for the year ended 31 December 2021 in accordance with International Accounting Standard (IAS) 7 (Statement of Cash Flows). (16 marks)

**(Total: 20 marks)**

**QUESTION TWO**

- (a) Mfalme Equipment Company estimates its carrying cost at 15% and its ordering cost at Sh.9 per order. The estimated annual requirement is 48,000 units at a price of Sh.4 per unit.

**Assumption - 1 year = 360 days**

**Required:**

- (i) Calculate the most economical number of units to order. (2 marks)
  - (ii) Explain how many orders should be placed in a year. (2 marks)
  - (iii) Determine how often an order should be placed. (2 marks)
- (b) Outline two objectives of preparing financial statements. (2 marks)
- (c) Explain the acronym "CAMELS" as a tool used by banks in the analysis of financial statements. (12 marks)

**(Total: 20 marks)**

**QUESTION THREE**

The following trial balance as at 31 March 2022 relates to Mawingu Ltd.:

	Sh."000"	Sh."000"
Plant and equipment at cost	10,080	
Motor vehicles at cost	4,800	
Fixtures and fittings at cost	3,200	
Accumulated depreciation - 1 April 2021:		
- Plant and equipment		4,120
- Motor vehicles		1,800
- Fixtures and fittings		1,600
Sales		124,000
Purchases	93,800	
Returns	3,200	3,360
Carriage inwards	2,200	
Carriage outwards	700	
Inventory - 1 April 2021	7,800	
Salaries and wages	9,450	
Rent and rates	8,100	
Electricity and water bills	4,860	
Telephone and postage	3,240	
Bank charges	1,350	
Accounts receivables	23,200	
Accounts payables		13,360
Allowance for doubtful debts - 1 April 2021		840
Ordinary share capital (Sh.10 par value)		10,000
Share premium		2,000
Retained earnings - 1 April 2021		16,800
10% bank loan		6,000
Interest paid	300	
Bank balance	7,600	
	<u>183,880</u>	<u>183,880</u>

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**Additional Information:**

- Inventory count was performed on 31 March 2022 which revealed valuation at a cost of Sh.9,300,000.
- At 31 March 2022, outstanding electricity bills amounted to Sh.340,000 while prepaid rent was Sh.1,100,000.
- Depreciation on property, plant and equipment is to be provided at the following rates and basis:

Assets	Rate per annum	Basis
Plant and equipment	12.5%	Reducing balance
Motor vehicles	25%	Straight line
Fixtures and fittings	10%	Straight line
- Allowance for doubtful debts is to be maintained at 5% of the accounts receivable.
- The current tax for the year is estimated as a tax refund of Sh.95,000.
- The 10% bank loan was obtained on 1 July 2021. Interest on the loan is payable half yearly on 31 December and 30 June each year.

**Required:**

- Statement of profit or loss for the year ended 31 March 2022. (8 marks)
- Statement of financial position as at 31 March 2022. (8 marks)
- As a credit analyst comment on the liquidity position of Mawingu Ltd. by calculating:
  - Current ratio. (2 marks)
  - Quick ratio. (2 marks)

**(Total: 20 marks)****QUESTION FOUR**

- Explain the following terms as used in working capital management:
  - Cash and cash equivalents. (2 marks)
  - Accrued expenses. (2 marks)
  - Cash operating cycle. (2 marks)
- The following information was extracted from the books of Amuzer Ltd.:

	Sh.
Average inventory	25,000
Average receivables	45,000
Average payables	29,000
Credit sales	450,000
Cost of goods sold	165,000
Purchases	65,000

**Assume 1 year = 365 days****Required:**

- Compute the cash conversion cycle. (8 marks)
- State what the following credit score means to a lender:

	Score	Rating	What it means	
(i)	<580	Poor	?	(2 marks)
(ii)	670 - 739	Good	?	(2 marks)
(iii)	800 +	Exceptional	?	(2 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) Analyse four reasons for corporate failures. (4 marks)
- (b) Outline four contents of a credit analysis report. (4 marks)
- (c) Protractor Limited, a private limited entity is a manufacturer and a retailer of household products.

The company's summarised financial statements for the years ended 30 June 2021 and 30 June 2020 are set out below:

**Statement of profit and loss for the year ended 30 June:**

	<b>2021</b> <b>Sh. "000"</b>	<b>2020</b> <b>Sh. "000"</b>
Revenue	1,670,000	1,391,800
Cost of sales	<u>(1,194,050)</u>	<u>(904,670)</u>
Gross profit	475,950	487,130
Operating expenses	<u>(192,050)</u>	<u>(146,139)</u>
Finance costs	<u>(12,000)</u>	<u>(16,800)</u>
Profit before tax	271,900	324,191
Income tax expense	<u>(60,960)</u>	<u>(79,560)</u>
Profit for the year	<u>210,940</u>	<u>244,631</u>

**Statement of financial position as at 30 June:**

	<b>2021</b> <b>Sh. "000"</b>	<b>2020</b> <b>Sh. "000"</b>
<b>Assets</b>		
<b>Non-Current assets:</b>	611,500	409,680
<b>Current assets</b>		
Inventory	131,280	106,510
Receivables	503,340	247,860
Bank	<u>-</u>	<u>114,480</u>
Total assets	<u>1,246,120</u>	<u>878,530</u>
<b>Equity and liabilities</b>		
Ordinary share capital	120,000	120,000
Share premium	24,000	24,000
Revaluation reserve	60,000	-
Retained earnings	<u>431,030</u>	<u>344,930</u>
Total equity	635,030	488,930
<b>Non-current liabilities:</b>		
Bank loans	77,000	99,700
<b>Current liabilities:</b>		
Payables	431,850	215,500
Bank overdraft	36,240	-
Current tax	<u>66,000</u>	<u>74,400</u>
Total equity and liabilities	<u>1,246,120</u>	<u>878,530</u>

The directors concluded that the revenue for the year ended 30 June 2020 fell below budget and introduced measures during the year ended 30 June 2021 to improve the situation, which included:

- Reducing the selling price.
- Extending credit facilities.
- Leasing additional machinery in order to increase production.

The directors are now reviewing the results for the year ended 30 June 2021.

Assume a 365-days financial year.

**Required:**

Calculate the following financial ratios for Protractor Limited for the two years ended 30 June 2021 and 2020:

- |       |                                    |           |
|-------|------------------------------------|-----------|
| (i)   | Gross Profit margin.               | (2 marks) |
| (ii)  | Operating profit margin.           | (2 marks) |
| (iii) | Return on Capital Employed (ROCE). | (2 marks) |
| (iv)  | Inventory holding period.          | (2 marks) |
| (v)   | Receivables collection period.     | (2 marks) |
| (vi)  | Payables payment period.           | (2 marks) |

**(Total: 20 marks)**

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