THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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MAIN EXAMINATION

JANUARY – APRIL 2019 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

ODEL PROGRAMME

CBF 422: FINANCIAL FORECASTING AND MODELLING

Date: APRIL 2019	**Duration: 2 Hours**
INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions	

Q1. a) The Financial statements of Rialto Co. Ltd showed the following current assets and current liabilities for the years ended December 31, 2013, and December 31, 2012:

	2013	**2012**
ASSETS		
Current assets:		
Cash	$ 80,000	$ 50,000
Accounts receivable, net	113,000	79,000
Inventories	107,100	106,900
Prepaid expenses	5,700	6,100
Total currents assets	$285,800	$222,000
LIABILITIES		
Current liabilities:		
Notes payable	$ 40,000	$ 33,000
Accounts payable	100,600	57,500
Total current liabilities	$140,600	$ 90,500

Required;

Calculate

i) Current Ratio **(2 marks)**

ii) Acid-test Ratio **(2 marks)**

iii) Rate of return on total assets **(2 marks)**

iv) Times-interest earned ratio **(2 marks)**

v) Debt ratio **(2 marks)**

b) Highlight the limitations of ratio analysis **(7 marks)**

c) Identify three users of financial analysis **(3 marks)**

d) Discuss the applications of the CVP model **(10 marks)**

Q2. a) Discuss the factors to consider in determining capital expenditure **(6 Marks)**

b) Distinguish between discounted payback period and accounting rate of return **(4 marks)**

c) Identify and explain three users of financial statements **(6 Marks)**

d) Discuss operating leverage **(4 Marks)**

Q3. a) If the selling price per unit of Mr. Livingstone's business is $30 of, the variable cost per unit is $20, and the fixed cost is $400,000, calculate the break-even in units **(4 marks)**

b) You are considering making a product presently purchased outside for $0.12 per unit. The fixed cost is $10,000, and the variable cost per unit is $0.08. Determine the number of units you must sell so that the annual cost of your machine equals the outside purchase cost. **(4 marks)**

c) If budget sales are $40,000 and break-even sales are $34,000, what is your margin of safety **(4 Marks)**

d) If the selling price is $25 per unit, the variable cost is $15 per unit, and total fixed cost is $50,000, which includes depreciation of $2,000, Calculate the cash break-even point **(4 marks)**

e) Distinguish between margin of safety and cash break-even point **(4 marks)**

Q4. The comparative income statement of the ABC Co. Ltd as of December 31, 2018, appears as follows:

	2018	**2017**
Net sales	$990,000	$884,000
Cost of goods sold	574,000	503,000
Gross profit	$416,000	$381,000
Operating expenses:		
Selling expenses	$130,000	$117,500
General expenses	122,500	120,500
Total operating expenses	$252,500	$238,000
Income from operations	163,500	143,000

Interest expense	24,000	26,000
Income before income Taxes	$139,500	$117,000
Income tax expense	36,360	28,030
Net income	$103,140	$ 88,970

Required;
Prepare a comparative income statement through;
i) Horizontal analysis **(10 marks)**

ii) Vertical analysis **(10 marks)**

END