PAN AFRICA CHRISTIAN UNIVERSITY
BACHELORS OF COMMERCE
END OF TERM EXAMINATION
DEPARTMENT: BUSINESS
COURSE CODE: CFN 303

COURSE TITLE: FINANCIAL STATEMENT ANALYSIS

ROYSAMBU CAMPUS

EXAM DATE:

TIME:

INSTRUCTIONS

- This examination script consists of **six (6)** questions.
- Answer Question one and ANY three Questions.
- Read all questions carefully before attempting.
- Write your **student number** on the answer booklet provided.

QUESTION ONE

a) Explain the term ‘financial statement analysis’ (1mark)
b) Describe any three users of financial analysis information (3marks)
c) Using relevant examples, discuss any three usefulness of financial analysis (6marks)

QUESTION TWO

Differentiate between:

a) Financial analysis technique and financial analysis tool (2marks)
b) Cross-sectional analysis and time series analysis (4marks)
c) Comparative statements and common size statements (4marks)

QUESTION THREE

a) Explain the term 'financial distress' of a business (2marks)
b) Identify any four causes of financial distress (4marks)
c) Describe how each of the above causes is addressed (4marks)

QUESTION FOUR

The following income statement has been provided:

	2020	2021
Net Sales	900,893.00	990,982.30
Cost of Goods Sold (excluding depreciation)	709,000.00	781,100.00
Depreciation	31,500.00	32,200.00
Gross Margin	160,393.00	177,682.30
Expenses		
Selling Expenses	82,912.20	89,545.18
General and Administrative Expenses	30,104.43	33,415.92
Other Expenses	22,200.00	25,000.00
Interest on debt	9,700.00	14,300.00
Total Expenses	144,916.63	162,261.09
Profit (loss) before taxes	15,476.37	15,421.21
Federal Income Tax	6,500.08	6,476.91
Net income (loss)	8,976.29	8,944.30

Required:

a) Analyze the income statements for the two periods using the comparative method (5marks)
b) Interpret/comment on the results (5marks)

QUESTION FIVE

ABC ltd has current Assets of 1.8 billion dollars with Net fixed Assets of 3.9 billion dollars. The current liabilities are 1.6 billion dollars and long term liabilities are 3.3 billion dollars. The business has consistently reported losses over the last 4 years with last year's losses alone amounting to 500 millions dollars.
Required; state the nature of the financial distress the company is likely to face.
ABC ltd has current Assets of 1 billion dollars with Net fixed Assets of 3 billion dollars. The current liabilities are 1 billion dollars and long term liabilities are 3. billion dollars. The business has consistently reported losses over the last 4 years with last year's losses alone amounting to 500 millions dollars.

Required:

State the nature of the financial distress the company is likely to face (Show your workings) (10marks)

QUESTION SIX

The following statement of financial position has been provided.

Assets		
	Delta Co.	Belta Co.
Current Assets		
Cash	39,700.00	27,500.00
Marketable securities	1,000.00	11,000.00
Accounts Receivable	81,500.00	72,700.00
Inventories	181,300.00	242,000.00
Total current assets	303,500.00	353,200.00
Fixed Assets:		
Land	112,000.00	112,000.00
Plant & equipment (net)	445,200.00	464,800.00
Total fixed assets	557,200.00	576,800.00
Other assets	13,300.00	21,500.00
Total assets	874,000.00	951,500.00

Liabilities and net worth		
	Delta Co.	Belta Co.
Current liabilities:		
Accounts payable	71,200.00	83,000.00
Notes payable	50,000.00	140,000.00
Accrued Expenses	33,400.00	36,300.00
Total current liabilities	154,600.00	259,300.00
Long-term debt:		
Mortgage payable	106,000.00	90,800.00
Net worth:		
Common stock	225,000.00	230,000.00
Retained earnings	388,400.00	371,400.00
Total Net Worth	613,400.00	601,400.00
Total Liabilities and Net Worth	874,000.00	951,500.00

Dividends paid in 1996 were sh20,000, while dividends paid in 1997 were sh25,944.30

Required:

a) Analyze the statements of financial position of the two companies using the common size method (5marks)
b) Interpret/comment on the results (5marks)