PAN AFRICA CHRISTIAN UNIVERSITY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF

JANUARY-APRIL 2021

CAMPUS: ROYSAMBU

DEPARTMENT: BUSINESS

COURSE CODE: CFN 303

COURSE TITLE: FINANCIAL STATEMENT ANALYSIS

EXAM DATE:

TIME:

INSTRUCTIONS

- This examination script consists of **SIX (6)** questions.
- Answer question **ONE** and ANY other **THREE** Questions.
- Read all questions carefully before attempting.
- Write your **student number** on the answer booklet provided.

Question One (compulsory) (10 marks)

1. **What is an investor's objective in financial statement analysis?**

a) To determine if the firm is risky.
b) To determine the stability of earnings.
c) To determine changes necessary to improve future performance.
d) To determine whether or not an investment is warranted by estimating a company's future earnings stream.

2. **What are common size financial statements?**

a) Statements that express each account on the balance sheet as a percentage of total assets and each account on the income statement as a percentage of net sales.
b) Statements that standardize financial data in terms of trends.
c) Statements that relate the firm to the industry in which it operates.
d) Statements based on common sense and judgment.

3. **State which of them are true?**

A) When ratios of previous years are compared with current years, they are called trend ratios.

B) Trend percentages and trend ratios are used in static analysis.

C) Reliability of financial analysis depends upon the reliability of financial data.

a) Both A and B
b) Both A and C
c) Both B and C
d) A, B, C

4. **If net revenue from operations of a firm are shs. 1,500,000; Gross Profit is shs.900,000 and operating expenses are shs.75,000, what will be percentage of operating income on net revenue from operations?**

   a) 45%
   b) 55%
   c) 35%
   d) 65%

5. **What will be the trend percentage, if the Inventory of a firm is 2,00,000; 2,40,000; 3,00,000 and 4,00,000 respectively?**

   a) 1, 1.2, 1.5,2
   b) 10, 12, 15,20
   c) 100, 120, 150, 200
   d) None of the Above

6. **Which objective is not fulfilled by comparative Statement of Profit & Loss :**

   a) To compare the items of Statement of Profit & Loss of two years
   b) To know the absolute changes in items of Statement of Profit & Loss
   c) To show the change in financial position
   d) To know the percentage changes in items of Statement of Profit & Loss

7. **The return on owner's equity ratio indicates:**

   a) the rate of return that management has earned on the capital provided by the owner after accounting for payments to all other capital suppliers
   b) how management uses its assets and capital, measured in terms of the sales generated by various assets or capital categories
   c) the rate of return that management has earned on the capital provided by the owner after accounting for payments to all other capital suppliers

d) the rate of return that management has earned on the capital provided by the owner before accounting for payments to all other capital suppliers

8. Internal liquidity or solvency ratios indicate the ability of the firm to:

a) meet future short term financial obligations
b) meet future long term financial obligations
c) settle current debt with fixed assets
d) settle future short term debt with fixed assets

9. How is it possible for a firm to be profitable and still go bankrupt?

a) Earnings have increased more rapidly than sales.
b) The firm has positive net income but has failed to generate cash from operations.
c) Net income has been adjusted for inflation.
d) Sales have not improved even though credit policies have been eased.

10. Which of the following statements is correct?

a) A low recievablesturnover is desirable
b) The lower the total debt-to-equity ratio,the lower the financial risk for a firm
c) An increase in net profit margin with no change in saes or assets means a weaker ROI
d) The higher the tax rate for a firm, the lower the interest coverage ratio

Question Two (10 marks)

Write a memorandum for circulation to all the junior members of the credit control department that highlights FIVE key indicators of customer solvency problems, which can be identified from published financial statements

Question Three **(10 marks)**

You have been hired as an analyst for ABC Bank and your team is working on an independent assessment of Click Food Inc. (CF Inc.) CF Inc. is a firm that specializes in the production of freshly imported farm products from France. Your assistant has provided you with the following data for Finner Inc and their industry.

Ratio	1999	1998	1997	1999- Industry Average
Long-term debt	0.45	0.40	0.35	0.35
Inventory Turnover	62.65	42.42	32.25	53.25
Depreciation/Total Assets	0.25	0.014	0.018	0.015
Days' sales in receivables	113	98	94	130.25
Debt to Equity	0.75	0.85	0.90	0.88
Profit Margin	0.082	0.07	0.06	0.075
Total Asset Turnover	0.54	0.65	0.70	0.40
Quick Ratio	1.028	1.03	1.029	1.031
Current Ratio	1.33	1.21	1.15	1.25
Times Interest Earned	0.9	4.375	4.45	4.65
Equity Multiplier	1.75	1.85	1.90	1.88

a. In the annual report to the shareholders, the CEO of Finner Inc wrote, "1997 was a good year for the firm with respect to our ability to meet our short-term obligations. We had higher liquidity largely due to an increase in highly liquid current assets (cash, account receivables and short-term marketable securities)." Is the CEO correct? Explain <u>and use only relevant information</u> in your analysis.

Question Four **(10 marks)**

Gregory and Simms (1999), stated, the quality of corporate governance is important since it has a direct impact on:

a. The efficiency with which a corporation employs assets (3 marks)

b. Its ability to attract low-cost capital (3 marks)

c. Its ability to meet the expectations of society (2 marks)

d. Its overall performance (2 marks)

Explain each of the above points.

Question Five **(10 marks)**

From the following data relating to Ms B for the year 2004 to 2007,

a. Calculate trend percentages (taking 2004 as base year). (5 marks)
b. Interpret your results in part (a) (5 marks)

	2004	**2005**	**2006**	**2007**
Net sales	200,000	190,000	249,000	260,000
Less : Cost of goods sold	120,000	117,800	139,200	145,600
Gross profit	80,000	72,000	100,800	114,400
Less : Expenses	20,000	19,400	22,000	24,000
Net profit	**60,000**	**52,800**	**78,800**	**90,400**

Question Six **(10 marks)**

The balance sheet of Mr Opiyo Private (Ovt) Limited (Ltd) and Bonano Private Limited are given below :

Balance Sheet as on 31st December, 2007

Liabilities	**Opiyo Ovt Ltd**	**Baonano Ovt Ltd**
	Shs	**Shs**
Preference share capital	120,000	150,000
Equity share capital	140,000	410,000
Reserves and surpluses	24,000	28,000
Long-term loans	110,000	120,000
Bill Payables	7,000	1,000
Sundry creditors	12,000	3,000
Outstanding Expenses	15,000	6,000
Proposed Dividend	10,000	90,000
	438,000	**808,000**
Assets		
Land and Building	80,000	123,000
Plant and Machinery	334,000	600,000
Temporary Investments	5,000	40,000
Investment	6,000	20,000
Sundry Debtors	4,000	13,000
Prepaid expenses	1,000	2,000
Cash and Bank balance	8,000	10,000
	438,000	**808,000**

a. Analyze the above data using common size analysis (5 marks)

b. Interpret your results in (a). (5 marks)