BACHELOR OF COMMERCE

END OF SEMESTER EXAMINATION

CFN 303: FINANCIAL STATEMENT ANALYSIS

APRIL 2022

BLENDED CLASS

Instructions

i) **This exam paper contains SIX questions containing 10 marks each.**

ii) **Answer Question 1 (COMPULSORY) and any other THREE questions**

iii) **Read each question carefully before attempting.**

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QUESTION ONE

(a) Explain the meaning of financial statement analysis and interpretation. (2 marks)

(b) Discuss the contents of the TWO main financial statements. (2 marks)

(c) Describe the following techniques of financial statement analysis;

(i) Cross-sectional analysis. (2 marks)

(ii) Time series analysis. (2 marks)

(d) For studying current financial position or liquidity position of a concern, one should examine the working capital in both the years. Required; explain what is meant by working capital. (2 marks)

QUESTION TWO

(a) Explain the meaning of a cash flow statement. (2 marks)

(b) Discuss the contents of the FOUR sections of a cash flow statement. (8 marks)

QUESTION THREE

(a) Discuss TWO areas showing the Importance of financial statements and reports to investors. (4 marks)

(b) Explain SIX purposes for undertaking financial statement analysis and interpretation. (6 marks)

QUESTION FOUR

(a) Explain the meaning of income statement. (2 marks)

(b) Discuss any FOUR tools used in analyzing financial statements. (8 marks)

QUESTION FIVE

Using the Comparative Income Statement for Mapesa General Agencies shown below, give an analysis and interpretation touching on;

(a) Sales. (2 marks)

(b) Cost of sales. (2 marks)

(c) Gross Profit. (2 marks)

(d) Operating expenses. (2 marks)

(e) Net profit after tax. (2 marks)

Mapesa General Agencies Ltd

Comparative income statement for the year ended 31st Dec 2006 and 2007

Detaiils	2006 Amount (Rs)	2007 Amount (Rs)	Increase (+) Decrease (–) (Rs)	Increase (+) Decrease (–) (Percentage)
Net sales	785,000	900,000	+115000	+14.65
Less cost of goods sold	450,000	500,000	+50000	+11.11
Gross profit	335,000	400,000	+65000	+19.40
Operating expenses :				
General & Administrative	70,000	72,000	+2000	+2.8
Selling expenses	80,000	90,000	+10000	+12.5
Total operating expenses	150,000	162,000	+12000	+8.0
Operating profit	185,000	238,000	+53000	+28.65
Less : other deductions				

Interest received	25,000	30,000	+5000	+20
Net profit before tax	160,000	208,000	+48000	+30.0
Less income tax	70,000	80,000	+10000	+14.28
Net profit after tax	90,000	128,000	+38000	+42.22

QUESTION SIX

Ratio analysis is one of most commonly used financial statement analysis tool;

Describe one ratio in each of the following classifications.

(a) Profitability ratios. (2 marks)

(b) Liquidity ratios. (2 marks)

(c) Debt management ratios. (2 marks)

(d) Asset management ratios. (2 marks)

(e) Market value ratios. (2 marks)