PAN AFRICA CHRISTIAN UNIVERSITY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF

MAY-AUGUST 2023

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.

<u>Question One (Compulsory) (10 marks)</u>

"Financial statement analysis is a useful tool for understanding a firms' performance."

In relation to the above statement, discuss **<u>five</u>** challenges that a financial analyst might face while using financial statements. (10 marks)

<u>Question Two (10 Marks)</u>

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

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)."

Required

Explain whether the CEO's statement is correct (use only relevant information in your analysis). (10 marks)

Question Three (10 Marks)

a. From the following data relating to the Equity and liabilities of balance sheet of X Ltd., for the period March 31, 2010 to 2013,

In Kshs

Particulars	*2010-11*	*2011-12*	*2012-13*	*2013-14*
Equity Share Capital	1,000	1,000	1,200	1,500
General Reserve	800	1,000	1,200	1,500
12% Debentures	400	500	500	500
Bank Overdraft	300	400	550	500
Trade Payable	100	120	80	140
Sundry Creditors	300	400	500	600
Outstanding Liabilities	50	75	125	150

Required

i. Calculate the trend percentages taking 2010-11 as the base year. (5 marks)

ii. Analyze your findings (5 marks)

Question Four (10 Marks)

a) Discus the importance of financial statements. (2 marks)

b) Describe **four** primary end year financial statements. Use suitable illustrations to explain your answers (8 marks)

Question Five (10 marks)

a) Using suitable examples, differentiate between financial distress and corporate failure. (4 Marks)

b) Explain **three** types of corporate failures giving examples. (6 Marks)

Question Six (10 marks)

The following is the Balance Sheets of Wambu Ltd for the years 2020 and 2021

Balance Sheet as on 31st December

Assets			Liabilities		
	2020	**2021**		**2020**	**2021**
	Shs	**Shs**		**Shs**	**Shs**
Land and Building	270,000	1,70,000	Equity share capital	500,000	700,000
Plant and Machinery	400,000	600,000	Reserves and surplus	330,000	222,000
Furniture	20,000	25,000	Debentures	200,000	300,000
Other fixed assets	25,000	30,000	Long term loan on mortgage	100,000	150,000
Other fixed assets	25,000	30,000	Bill Payables	50,000	45,000
Bill Receivables	100,000	80,000	Sundry creditors	100,000	120,000
Sundry debtors	200,000	250,000	Other current liabilities	5000	10,000
Stock	250,000	350,000			
Prepaid Expenses	—	2000			
	1285000	1547000		1285000	1547000

Required

a. Prepare a comparative Balance sheet (4 marks)
b. Analyze your findings in (a) above (6 marks)