PAN AFRICA CHRISTIAN UNIVERSITY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF

SEPTEMBER – DECEMBER 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)

The table below shows a summary of Financial Ratios for Deep Fizz Company; Extreme Fizz, Inc.; and the Industry Average. Use it to answer questions (a) and (b) below.

		Deep Fizz	Extreme Fizz	Industry Average
Profitability Measures				
1.	Gross margin ratio	63.1 percent	54.1 percent	53.1 percent
2.	Profit margin ratio	22.1 percent	23.2 percent	19.2 percent
3.	Return on assets	15.1 percent	17.3 percent	14.2 percent
4.	Return on common shareholders' equity	36.5 percent	34.9 percent	34.7 percent
5.	Earnings per share	$2.01	$3.76	Not applicable
Short-Term Liquidity Measures				
6.	Current ratio	0.85 to 1	1.25 to 1	1.20 to 1
7.	Quick ratio	0.62 to 1	0.87 to 1	1.10 to 1
8.	Receivables turnover ratio	9.10 times	10.18 times	9.70 times
9.	Average collection period	40.11 days	35.85 days	37.63 days
10.	Inventory turnover ratio	5.12 times	7.86 times	7.50 times
11.	Average sale period	72.29 days	46.44 days	48.67 days
Long-Term Solvency Measures				
12.	Debt to assets	0.34 to 1	0.38 to 1	0.48 to 1
13.	Debt to equity	0.67 to 1	0.86 to 1	0.94 to 1
14.	Times interest earned	31.60 times	38.93 times	10.70 times
Market Valuation Measures				
15.	Market capitalization	$91,800,000,000	$86,500,000,000	$87,500,000,000
16.	Price-earnings ratio	19.34 times	20.31 times	14.60 times

a. Evaluate the performance of both companies in relation to the industry performance. Use only relevant ratios for your interpretation. (6 marks)

b. In relation to the above information, explain two limitations of ratios that will affect your evaluation in part (a). (4 marks)

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

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. (10 marks)

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

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

b. Discuss **<u>four</u>** primary end year financial statements. Use suitable illustrations to explain your answers. (8 marks)

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

a. Discuss the following using suitable examples:

i. Financial Analysis (2 marks)

ii. Risk analysis (2 marks)

iii. Profitability analysis (2 marks)

b. Explain the following statement; "comparison must be meaningful and fair when using comparative analysis." (4marks)

<u>Question Five (10 marks)</u>

a. With suitable examples, explain **two** uses of common size statements. (4 marks)

b. From the information given below, prepare a comparative income statement of profit and loss (3marks)

Particulars	31st March, 2008	31st March, 2009
Revenue from Operations	3,00,000	4,00,000
Sales Return	1,00,000	2,00,000
Cost of Revenue from Operations	60% of Revenue from Operations	50% of Revenue from Operations
Administrative Expenses	20% on Gross Profit	10% on Gross Profit
Income Tax	40%	40%

c. Give an interpretation of your calculations in part (b) above. (3 marks)

Question Six **(10 marks)**

a. Differentiate with examples financial distress and corporate failure. (4 Marks)
b. Explain **three** types of corporate failures giving examples. (6 Marks)