PAN AFRICA CHRISTIAN UNIVERSITY

END OF SEMESTER EXAMINATION FOR THE DEGREE OF

JANUARY – APRIL 2026

CAMPUS: ROYSAMBU

DEPARTMENT: BUSINESS

COURSE CODE: CFN 303

COURSE TITLE: FINANCIAL STATEMENT ANALYSIS

EXAM DATE:

TIME:

INSTRUCTIONS

- This examination script consists of **FIVE (5)** 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) **(30 marks)**

a. Discuss **five** parties interested in analysis of financial statements stating why they are interested in the analysis (10 marks)

b. Explain the following components of business analysis

(i) Credit analysis (3 marks)

(ii) Equity analysis (3 marks)

c. Distinguish clearly between vertical and horizontal analysis of financial statements (4 marks)

d. "Many oil businesses now publish an environmental and social report, and I think it may be time for us to do so. It would give us the opportunity to set the record straight about what we do to reduce pollution, and could help to deflect some of the public attention from us over this law suit. In any case, it would be a good public relations opportunity; we can use it to tell people about our equal opportunities programme. I was reading about something called the Global Reporting Initiative [GRI]. I don't know much about it, but it might give us some help in structuring a report that will get the right message across. We could probably pull something together to go out with this year's annual report". The draft financial statements for the year ended 28 February 2025 include the following information relevant for the calculation of key ratios. All figures are before taking into account the Shs.500 million provision. The provision will be charged to operating expenses.

	Shs.m
Net assets (before long-term loans) at 1 March 2024	9,016
Net assets (before long-term loans) at 28 February 2025	10,066
Long-term loans at 28 February 2025	4,410
Share capital + reserves at 1 March 2024	4,954
Share capital + reserves at 28 February 2025	5,656
Revenue	20,392
Operating profit	2,080
Profit before tax	1,670
Profit for the period	1,002

The number of ordinary shares in issue throughout the years ended 29 February 2004 and 28 February 2025 were 6,000 million shares of 25¢ each.

MW's key financial ratios for the 2024 financial year (calculated using the financial statements for the year ended 29 February 2024) were:

- Return on equity (using average equity): 24·7%
- Return on net assets (using average net assets): 17·7%
- Gearing (debt as a percentage of equity): 82%
- Operating profit margin: 10·1%
- Earnings per share: 12·2¢ per share

<u>Required</u>:

In your position as assistant to MW's Chief Financial Officer produce a briefing paper that Analyses and interprets the effects of making the environmental provision on MW's key financial ratios. You should take into account the possible effects on the public perception of FW. (10 marks)

SECTION B: ANSWER ANY THREE QUESTIONS

Question Two **(10 marks)**

a. Selected comparative income statements of ZEE Company is given below:

Year	2020 **KSHS**	2019 **KSHS**
Net sales	990,000	810,000
Cost of goods sold	574,000	461,700
Gross profit	**416,000**	**348,300**
Operating expenses		
Selling expenses	130,000	132,000
General expenses	122,500	125,500

Total operating expenses	252,500	257,500
Income from operation	**163,500**	**90,800**
Interest expense	24,000	24,000
Income before tax	139,500	66,800
Income tax expense	36,360	17,368
Net income	**103,140**	**49,432**

Required:

a. Perform financial analysis for the financial statements using trend analysis (10 marks)

Question Three **(10 marks)**

a. Undertaking financial statement analysis in 2026 remains a critical practice for transforming raw numerical data into actionable insights for diverse stakeholders. Discuss [6 marks]
b. Financial statement analysis is an essential yet imperfect tool, as it relies on figures that do not always reflect the current or complete reality of a business. Explain this statement [4 marks]

Question Four **(10 marks)**

a. With suitable examples, explain **two** uses of common size statements. (3 marks)
b. The following is comparative summary of financial ratios for XYZ ltd and ABC ltd for the period ending 30.9.2023

	XYZ ltd	**ABC ltd**

Current ratio	2.08	1.97
Earnings per share	2.89	1.82
Dividend per share	1.29	0.75
Debt ratio	0.47	0.44
Times interest earned ratio	4.49	3.33

Required:

Explain which of the two companies has better performance on the basis of the value of each ratio indicated. (7 marks)

Question Five **(10 marks)**

a. A Shah Ltd reported profits in its financial statements and yet experienced decline balances of the cash at hand and at bank. Explain how this is possible. (4 Marks)

b. Katoto Enterprises is a medium-sized wholesaler that has seen its cash reserves drop despite record sales numbers in 2025. As the new Finance Assistant, your Head of Section, Ms. Amina, suspects that while the company is growing, it is becoming less efficient and potentially over-leveraged.She provides you with the **Income Statements** and **statement for the financial position** for the last three years (2023–2025)

The Data Provided:

Sales: Increased by 40% over 3 years, but **Net Profit** only increased by 5%.

Expenses: Administrative costs were 10% of sales in 2023 but rose to 20% in 2025.

Debt: The company took a large loan in 2024 to buy new delivery truck

Required

As the Finance Assistant at Katoto Enterprises, discuss four financial analysis tools you would use to investigate the relationship between the figures mentioned in the case study. (6 marks)