



**TECHNICAL UNIVERSITY OF MOMBASA  
SCHOOL OF BUSINESS  
DEPARTMENT OF ACCOUNTING & FINANCE**

**UNIVERSITY EXAMINATIONS FOR DEGREE IN  
BACHELOR OF COMMERCE (BCOM) – FINANCE OPTION**

**BFI 4310: FINANCIAL STATEMENT ANALYSIS**

**END OF SEMESTER EXAMINATIONS  
SERIES: MAY 2016  
TIME: 2 HOURS**

**INSTRUCTIONS:**

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- Answer Question **ONE (Compulsory)** and any other **TWO** Questions.
  - Do not write on the question paper.

**This paper consists of FOUR printed pages**

## QUESTION 1 (Compulsory)

- a) Explain the users of financial information. (10 marks)
- b) Ratio analysis is one of the many tools of financial statement analysis used as a basis for decision making by users of financial statements. Explain the significance of the following ratios in decision making:
- (i) Return on investment (4 marks)
  - (ii) Price - earnings ratio (4 marks)
  - (iii) Current ratio (4 marks)
  - (iv) Capital – gearing ratio (4 marks)
  - (v) Gross profit to sales (4 marks)

## QUESTION 2

The following summarized trading, profit and loss account relates to Lezo Traders for the year ended 30<sup>th</sup> June 2015.

	Shs.
Sales	1,406,250
Less cost of sales:	
Opening stock	320,000
Add purchases	651,250
Less closing stock	<u>465,000</u>
	<u>506,250</u>
Gross profit	900,000
Less selling and adm. Expenses	<u>618,750</u>
Net profit	<u>281,250</u>

### Additional information

On June 30<sup>th</sup> 2015, the net fixed assets were shs.937,500, current assets were shs.600,000 and current liabilities shs.375,000.

### Required:

### Calculate:

- (i) Gross profit margin (4 marks)
- (ii) Net profit margin (4 marks)
- (iii) Return on capital employed (4 marks)
- (iv) Stock turnover ratio (4 marks)
- (v) Fixed assets turnover (4 marks)

### QUESTION 3

- a) What is financial planning? How does it differ from financial forecasting. (5 marks)
- b) Explain the following forms of financial analysis:
- (i) Vertical analysis (3 marks)
  - (ii) Ratio analysis (3 marks)
  - (iii) Horizontal analysis (3 marks)
  - (iv) Cross sectional analysis (3 marks)
  - (v) Trend analysis (3 marks)

### QUESTION 4

The following financial statements were obtained from the books of Mwakirunge Ltd.

Income statement for the year of income ending 31<sup>st</sup> December 2015:

	<b>Shs.</b>
Sales	4,000,000
Cost of sales	<u>2,000,000</u>
Gross profit	2,000,000
Less operating expenses	<u>1,000,000</u>
	1,000,000
Less corporation tax	<u>300,000</u>
	700,000
Dividend paid	<u>350,000</u>
Retained profit (Earnings)	<u><u>350,000</u></u>

### Statement of financial position for financial year 2015.

	<b>Shs.</b>
20,000 ordinary shares @Shs.20	4,000,000
Retained earnings	350,000
10% Debentures	1,000,000
Payables	450,000
Bank overdraft	<u>200,000</u>
	<u>6,000,000</u>
Fixed assets	3,000,000
Inventory	1,000,000
Receivables	1,500,000
Cash	<u>500,000</u>
	<u>6,000,000</u>

**Required:**

Compute the following ratios

- (i) Debt equity ratio (4 marks)
- (ii) Fixed assets turnover ratio (4 marks)
- (iii) Acid test ratio (4 marks)
- (iv) Earnings per share (4 marks)
- (v) Dividends per share (4 marks)

**QUESTION 5**

- a) Discuss the limitations of ratio analysis (10 marks)
- b) Discuss the differences between Fund flow statement and cash flow statement (10 marks)